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, with revision, the 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 Board'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 Federal Reserve 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 the net debit cap calculation, 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 Federal Reserve proposes minor revisions to the FR 2225 reporting form and instructions to make the reporting of foreign currency translations consistent with the reporting requirements detailed in other Federal Reserve information collections, resulting in the reduction of an item from the report form. The revisions would be effective as of the April 31, 2005 report date. The current annual burden for the FR 2225 is estimated to be forty-two hours and would remain unchanged with these proposed revisions.

Background and Justification

In April 1985, the Federal Reserve adopted a policy to reduce risk on large-dollar payments systems (50 FR 21120). 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, or class, 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.[1] A depository institution's cap class and associated cap multiple are determined either through a self-

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[1] 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

assessment or a board-of-directors resolution or are assigned by the Administrative Reserve Bank.[2] Under the current policy, the Federal Reserve Banks apply the cap multiple to 100 percent of domestic depository institutions' risk-based (or equivalent) capital. For an FBO, the 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 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.[3] The SOSA ranking is based on a scale of 1 through 3, with one representing the lowest level of supervisory concern.

Specifically, the PSR policy permits the calculation of the U.S. capital equivalency to equal the following:

- 35 percent of capital for FBOs that are FHCs,
- 25 percent of capital for FBOs that are not FHCs and are ranked a SOSA 1,
- 10 percent of capital for FBOs that are not FHCs and are ranked a SOSA 2, or
- 5 percent of "net due to related depository institutions" for FBOs that are not FHCs and are ranked a SOSA 3.

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. Reserve Banks use the assets data reported in item 4 for analysis purposes.

The current reporting panel comprises forty-two 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 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.

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

Proposed Revisions

The Federal Reserve proposes the following revisions to facilitate consistency with other Federal Reserve information collections.

General Instructions:

- Revise – "Does the FBO request confidential treatment for any portion of the report?" – The Federal Reserve proposes to change the wording concerning the granting of confidential treatment to what is used in other Federal Reserve information collections. Specifically, the responsibility for determining confidential treatment would be changed from the Federal Reserve Board to the Federal Reserve Banks.
- Add – Section "Foreign exchange conversion rate used in calculating Item 1a. and Item 4" – This section would explain which exchange rate should be used to translate the bank's capital figure into U.S. dollars.

Specific Instructions:

Report Item 4. Amount of worldwide total assets of the reporting bank

- Revise – the reference to Item 5, Section C of the FR Y-7 would be changed to "Item 4, Section C" to match the proposed *Annual Report of Foreign Banking Organizations* (FR Y-7; OMB No. 7100-0125) that is currently out for public comment[4].

Report Item 5. Foreign exchange conversion rate used in calculating Item 1a. and Item 4.

- Delete –The Federal Reserve proposes to delete Item 5 to be consistent with other Federal Reserve information collections. Also, the information is available from other sources.

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.

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) and is voluntary. The information submitted by respondents is not confidential.

Estimate of Respondent Burden

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 this country submits only one form for the U.S. "family" of offices. The current annual reporting burden for the FR 2225 is estimated to be forty-two hours, which is based on the current number

[4] See http://www.federalreserve.gov/boarddocs/reportforms/formsreview/FRY7.20041027.i.pdf

of FBOs with U.S. branches or agencies that incur daylight overdrafts in their Federal Reserve accounts. This represents less than 1 percent of total Federal Reserve System burden.

	Estimated number of respondents	*Estimated annual frequency*	*Estimated average hours per response*	*Estimated total annual burden hours*
FR 2225	42	1	1	42

Based on a rate of $20 per hour, the estimated current annual cost to the public is $840.

Estimate of Cost to the Federal Reserve System

Estimates of the annual cost to the Federal Reserve System of collecting and processing the report will be obtained.

Consultation Outside the Agency

There has been no consultation outside the Federal Reserve System.

Sensitive Questions

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