

Federal Reserve Reserves and Payment System Risk Update

FedExchange

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Current Topics of Interest

- Term Deposit Facility
- Payment System Risk Policy Changes

Term Deposit Facility (TDF)

Discussion Guide

- Context and Background
 - Timeline
 - Eligibility
 - Compare & Contrast
- Term Deposit Facility Auction Process
- Setup Steps
 - When?
 - What?
 - How long does it take?
- Additional Resources

Context and Background: Term Deposit Facility

- Program through which Federal Reserve Banks offer interest-bearing term deposits to eligible institutions
- Fixed quantities of term deposits will be offered for a specified maturity date.
- Offerings will be made through a competitive auction as well as a noncompetitive tender option.

Context and Background (con't)

- Provides a tool to help manage the aggregate quantity of reserve balances held by depository institutions
 - Any term deposits outstanding temporarily drain aggregate reserve balances, because funds are removed from participants' accounts for the life of the term deposit

TDF Timeline

12/28/09

- Press release proposing amendment to Reg D to establish TDF issued

12/31/09

- Federal Register Notice requesting public comment on TDF issued

4/30/10

- Press release announcing amendment to Reg D to establish TDF issued

5/5/10

- Federal Register Notice approving TDF issued

NOW

- Institutions setting up access to TDF application

6/4/10

- Amendment to Reg D will become effective

???

- First TDF Auction has not been announced

Eligibility for TDF

- Institutions that are permitted by statute to receive interest on balances at the Federal Reserve Banks – defined in section 19(b)(1)(A) of the Federal Reserve Act:
 - Banks, savings associations, savings banks and credit unions that are Federally insured or eligible to apply for Federal insurance;
 - Edge and agreement corporations;
 - US agencies and branches of foreign banks

Compare & Contrast: TDF versus Reserve Balances/Requirements

- Term deposits cannot be used to meet reserve balance requirements, contractual clearing balances or clear payments.
- Term deposits cannot reduce daylight or overnight overdrafts in an institution's master account.
- Term deposits CAN be used as collateral for discount window advances and Payment System Risk (PSR) purposes.

Auction Process



Prior to each offering, the Federal Reserve will make an announcement and post the offering details to the TDF Resource Center.

On the offering date, after the open time, and prior to the close time, the TDF participant can submit a tender using the TDF application.

After the notification date and time, the TDF participant can view the results of its tender submission in the TDF application. The aggregate results of the TDF offering (for example, total number of bidders) will be announced on the TDF Resource Center.

On the settlement date, the TDF participant's settlement account will be debited for its accepted bid(s). The TDF participant now holds a term deposit.

On the maturity date, the TDF participant's settlement account will be credited with principal from the term deposit and the interest earned. The TDF participant can view interest earned and historical information on its holdings of term deposits in the TDF application.

May 2010

Set-up Steps

- When can the set-up process start?
 - Immediately
- What steps are required to establish access?
 - Access Online Federal Reserve Bank Services Term Deposit Facility Resource Center
 - Term Deposit Agreement (signed by OAL signer)
 - Subscriber Request Form
 - Other forms depending on service configuration
- How long does the set up process take?
 - Set-up time from submission of forms to participation is between 7-14 business days

Sample: TDF FAQs

- Where will TDF offering announcements be posted?
- How will TDF participants be notified of auction awards?
- Can a TDF participant use a correspondent to settle its term deposit transactions?
- Can a correspondent submit a tender on behalf of a TDF participant who would like to bid for term deposits?

Additional Resources

Term Deposit Facility Resource Center:

http://www.frbservices.org/centralbank/term_deposit_facility.html

FRB Boston Account Management:

800-526-0338

Acct Mgmt Team: Andrea Bynum, Jim Freeman, Chantal Pho

Manager: Gretchen Wehrle-Scott 617-973-3318

Customer Care Center

• 800-333-2690 [ccc.coordinators@kc.frb.org](mailto:ccc coordinators@kc.frb.org)

Questions?

Payment System Risk (PSR) Policy Changes

Agenda

- What is PSR?
- Background: Why is the policy changing?
- Key PSR policy changes
 - Collateral
 - Pricing
 - Net debit caps
- Implementation timeline
- Resources and contacts

Payments System Risk

Risk of loss posed by the action of
sending or receiving payments

- Businesses/Individuals
- Financial Institutions
 - Reserve Banks

Daylight Overdraft

- An institution's Federal Reserve account has a negative balance during the day
 - Monitor accounts on a daily basis
 - Calculate/Assess Fees for use of daylight credit regardless of collateral position
 - Measure credit usage against an amount established (net debit cap)

Backdrop for change

2005

- Review changes in the financial industry, Federal Reserve and effects on payments and markets
- Proposals on PSR policy and posting rule changes

- Comprehensive approach with industry.
- Opportunities to improve efficiencies in the payment systems

2008

- PSR policy revised to improve intraday liquidity management and payment flows for the banking system, and help mitigate the credit exposures of the Reserve Banks

Strategic change for PSR Policy

- **Previous Strategy**

- Encourages institutions to minimize their use of Federal Reserve intraday credit

- **Revised Strategy**

- Recognizes central bank role in providing balances through intraday facility for market stability
- Concurrently, reduce risk by incenting the use of collateralized daylight credit
- Aims to reduce reliance on uncollateralized daylight overdrafts , absent unanticipated disruption or adverse consequences to the payment system

Key changes in the revised PSR policy

	Previous policy	Revised policy
Collateral	Required for problem institutions and institutions with max caps only. Collateral eligibility and margins same as discount window	Additional provision that explicitly applies collateral pledged by healthy institutions to daylight overdrafts in their Reserve Bank accounts
Fee for collateralized daylight overdrafts	36 basis points	Zero fee
Fee for uncollateralized daylight overdrafts	36 basis points	50 basis points
Deductible	10 percent of an institution's capital measure	Deductible is eliminated. Replaced by zero fee for collateralized daylight overdrafts and increased fee waiver
Fee waiver	Up to \$25 biweekly	\$150 biweekly
Net debit cap	Two-week average limit and higher single-day limit	Two-week average limit is eliminated; adjusted policy for single-day limit
Max cap	Additional collateralized capacity above net debit cap for self-assessed institutions – Limited usage	Streamlined process for certain FBOs up to a limit; minor changes for all institutions Limited usage expected to continue
Penalty fee for ineligible institutions	136 bps	150 bps

Collateral

- Voluntary collateralization
 - Credit risk reduction to Reserve Banks
 - Flexibility in crisis and peak liquidity days
- Collateral eligibility and margins same as for Discount Window
- Pledged collateral not being used to secure Discount Window borrowings will be applied to daylight overdrafts, if needed, for zero fee

Pricing

- Decrease fee to zero from 36 bps collateralized daylight overdrafts
 - Provides incentive to increase collateral pledged
 - Reduces incentives to queue payments
- Increase fee to 50 bps from 36 bps for uncollateralized daylight overdrafts
 - Higher fee increases incentives to pledge collateral
- Increases penalty fee to 150 bps from 136 bps for entities without regular Discount Window access

Fee waiver

- Increases fee waiver to \$150 from \$25
 - Reduces burden of policy on institutions that use small amounts of daylight overdraft credit
 - Applied to fees for all depository institutions
- Eliminates current fee deductible
 - Free credit through zero fee for collateralized daylight overdrafts and increased fee waiver

Net Debit Caps

- Retains single-day cap, but eliminates two-week average cap
 - Increases capacity by 50 percent for self-assessed institutions
- Additional flexibility in ex-post counseling
 - If a daylight overdraft above the cap level is *uncollateralized*, existing ex-post counseling regime applies
 - If a daylight overdraft above the cap level is *fully collateralized*, the Reserve Bank may waive counseling for two incidents per two reserve maintenance periods (4 weeks)

Implementation timeline

- Internal work currently being conducted on policies, guidelines and systems
- Implementation date not yet announced
 - Policy change release indicated late 2010/early 2011
 - Date will be specified at least 90 days in advance

Resources and contacts

- PSR policy
 - <http://www.federalreserve.gov/newsevents/press/other/20081219a.htm>
- Guide to the PSR policy – Interim policy update January 2009
<http://www.federalreserve.gov/paymentsystems/psr/guide.pdf>
- PSR Policy Fee Calculator -
 - <https://www.federalreserve.gov/apps/RPFCalc/>
- FRB Boston Account Management 800-526-0338
Acct Mgmt Team: Andrea Bynum, Jim Freeman, Chantal Pho
Manager: Gretchen Wehrle-Scott 617-973-3318
- Discount Window
 - FRB Boston - 800-716-3773 <http://www.frbdiscountwindow.org>

Questions?