

Glossary

Above-average cap—The cap category that permits an institution to incur daylight overdrafts on a single day up to 1.875 times its capital measure and an average of its peak daily overdrafts during any two-week reserve maintenance period up to 1.125 times its capital measure.

Account Balance Monitoring System (ABMS)—The Federal Reserve’s computer system that provides account information to the Federal Reserve Banks and depository institutions on an intraday basis. ABMS serves as both an informational source and a monitoring tool. This information includes opening balances, funds and security transfers, nonwire accounting activity, and DI cap and collateral limits.

Account Management Information (AMI)—AMI is an information tool available on FedLine Web for institutions to use to access account management information, including real-time account balances, daylight overdraft balances, statements of account, and cash management services, or to make detailed transaction inquiries.

ACH—Automated clearinghouse. An electronic batch processing service used to disburse or collect funds.

Administrative Reserve Bank (ARB)—The administrative Reserve Bank is responsible for the administration of Federal Reserve credit, reserves, and risk management policies for a given depository institution or other legal entity.

Affiliate—Any company that controls, is controlled by, or is under common control with, a bank or nonbank bank (according to Federal Reserve Regulation Y).

Agreement corporation—A corporate subsidiary of a federal- or state-chartered bank having an agreement or undertaking with the Board of Governors, under section 25 of the Federal Reserve Act, to engage in international banking and investments.

Average cap—The cap category that permits an institution to incur daylight overdrafts on a single day up to 1.125 times its capital measure and an average of its peak daily overdrafts during any two-week reserve maintenance period up to 0.75 times its capital measure.

Average daily daylight overdraft—A institution’s average daily daylight overdraft is calculated by dividing the sum of its negative Federal Reserve account balances at the end of each minute of the scheduled Fedwire operating day (with positive balances set to zero) by the total number of minutes in the scheduled Fedwire operating day.

Bank holding company (BHC)—Any company (including a bank) that has direct or indirect control of a bank.

Bankers’ bank—An institution organized and chartered solely to do business with other financial institutions, and primarily owned by the financial institutions that it services. A

bankers' bank is a depository institution that is not required to maintain reserves under the Board's Regulation D (12 CFR 204). Bankers' banks do not take deposits or make loans to the public and are not eligible for discount window access unless they waive their exemption from reserve requirements.

Basel Capital Accord—A 1988 agreement by the Committee on Banking Regulations and Supervisory Practices of the Group of Ten Countries that establishes a framework for bank capital measurement and capital standards.

Board of directors resolution—A statement of intention to follow a course of action that is approved by a majority vote of a quorum of the board of directors of a corporation. In the context of the PSR policy, a board of directors resolution would be adopted to convey approval to a Reserve Bank of a net debit cap category.

Board of Governors (Board)—The Board of Governors of the Federal Reserve System.

Book-entry securities transfer—Generally, an electronic transfer of a U.S. Treasury or Government Agency security over the Fedwire Securities Service.

Cap—See **Net debit cap**.

Cap breach—A single-day cap breach occurs whenever the peak negative end-of-minute balance in an institution's Federal Reserve account on any day exceeds its single-day net debit cap. A two-week-average cap breach occurs whenever an institution's average peak daily overdraft over a reserve-maintenance period is greater than its two-week-average net debit cap.

Cap category—An institution's category or class for purposes of determining its daylight overdraft net debit cap. There are six cap categories: zero, exempt-from-filing, de minimis, average, above average, and high.

Cap multiple—The factor associated with each cap category for purposes of calculating the net debit cap.

Capital measure—For depository institutions chartered in the United States, net debit caps are multiples of "qualifying" or similar capital measures that consist of those capital instruments that can be used to satisfy risk-based capital standards, as set forth in the capital adequacy guidelines of the federal financial regulatory agencies. The U.S. capital equivalency measure for branches and agencies of foreign banks is based on their strength of support assessment ranking and financial holding company status.

Collateralized capacity – Represents the collateralized component of the maximum daylight overdraft capacity approved by the Reserve Bank. The amount of collateralized capacity cannot exceed the difference between the institution’s maximum daylight overdraft capacity level and its single-day net debit cap. For example, if the single-day net debit cap increases as a result of an increase in capital at the institution, its maximum daylight overdraft capacity is unchanged, so its collateralized capacity is reduced.

Competitive Equality Banking Act (CEBA)—A federal law enacted August 10, 1987, that, among other things, prohibits nonbank banks and industrial banks from incurring daylight overdrafts in their Federal Reserve accounts on behalf of affiliates.

Daylight overdraft—A negative balance in an institution’s Federal Reserve account at any time during the Fedwire operating day.

Peak daily overdraft—The maximum end-of-minute negative account balance held by an institution on a particular day.

Two-week-average overdraft—The sum of the peak daily overdrafts over a two-week reserve maintenance period divided by the number of business days in the period.

Daylight Overdraft Reporting and Pricing System (DORPS)—The computer system used by the Federal Reserve to measure and assess fees for daylight overdrafts in Federal Reserve accounts.

Deductible—A percent of an institution’s capital that is used to determine the amount deducted from the gross overdraft charge for a day.

De minimis cap—The cap category that permits an institution to incur daylight overdrafts up to a net debit cap equal to 40 percent of its capital measure.

Edge corporation—A corporate subsidiary of a domestic or foreign bank, established under section 25(a) of the Federal Reserve Act to engage in international banking and investments.

Effective daily rate—The annual rate charged for daylight overdrafts divided by 360 days, adjusted for the portion of the day during which the Fedwire funds transfer system is officially operating.

End-of-minute balance—The balance in an institution’s Federal Reserve account at the end of each minute as measured by DORPS for purposes of daylight overdraft reporting and pricing.

Exempt-from-filing cap—The cap category that permits an institution to incur daylight overdrafts up to a cap equal to the lesser of \$10 million or 20 percent of its capital measure.

Fedwire—The Federal Reserve funds and book-entry government securities transfer system.

Financial holding company (FHC)—The Gramm-Leach-Bliley Act defines a financial holding company as a bank holding company that meets certain eligibility requirements. In order for a bank holding company to become a financial holding company and be eligible to engage in the activities authorized under the Gramm-Leach-Bliley Act, the Act requires that all depository institutions controlled by the bank holding company be well capitalized and well managed (12 U.S.C. 1841(p)). With regard to a foreign bank that operates a branch or agency or owns or controls a commercial lending company in the United States, the Act requires the Board to apply comparable capital and management standards that give due regard to the principle of national treatment and equality of competitive opportunity (12 U.S.C. 1843(l)).

Foreign banking organization (FBO)— (1) A foreign bank, as defined in section 1(b)(7) of the International Banking Act of 1978 (12 U.S.C. 3101(7)), that (a) operates a branch, agency, or commercial lending company subsidiary in the United States, (b) controls a bank in the United States; or (c) controls an Edge corporation acquired after March 5, 1987, and (2) any company of which the foreign bank is a subsidiary.

Government-sponsored enterprises (GSEs)—The Federal Reserve acts as fiscal agent for government-sponsored enterprises, the securities of which are Fedwire-eligible but are not obligations of, or fully guaranteed as to principal and interest by, the United States. The GSEs include Fannie Mae, the Federal Home Loan Mortgage Corporation (Freddie Mac), entities of the Federal Home Loan Bank System (FHLBS), the Farm Credit System, the Federal Agricultural Mortgage Corporation (Farmer Mac), the Financing Corporation, and the Resolution Funding Corporation.

Gross overdraft charge—The daylight overdraft charge calculated, based on average overdrafts, before being reduced by the deductible valued at the effective daily rate charged for overdrafts.

High cap—The cap category that permits an institution to incur daylight overdrafts on a single day up to 2.25 times its capital measure and an average of its peak daily overdrafts during any two-week reserve maintenance period up to 1.5 times its capital measure.

Industrial bank—An institution as defined in section 2(c)(2)(H) of the Bank Holding Company Act. In general, an industrial bank is a state-chartered finance company that makes loans and raises funds by selling investment certificates or investment shares to the public.

International organizations—The Federal Reserve acts as fiscal agent for certain international organizations, the securities of which are Fedwire-eligible but are not obligations of, or fully guaranteed as to principal and interest by, the United States. The international organizations include the World Bank, the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank.

Limited-purpose trust company—For purposes of the PSR policy, a limited-purpose trust

company is a trust company that is a member of the Federal Reserve System but that does not meet the definition of “depository institution” in section 19(b)(1)(A) of the Federal Reserve Act (12 U.S.C. 461(b)(1)(A)).

Liquidity—The ability to make payments as they become due in readily available funds.

Maximum daylight overdraft capacity—An institution’s single-day net debit cap plus its collateralized capacity. (See collateralized capacity.) Only institutions with self-assessed net debit caps are eligible to request maximum daylight overdraft capacity from the Federal Reserve.

Net debit cap—The maximum dollar amount of uncollateralized daylight overdrafts an institution is permitted to incur in its Federal Reserve account at any point in the day or on average over a two-week period. The net debit cap is generally equal to an institution’s capital measure times the cap multiple for its cap category.

Net debit position —A negative intraday or interday balance in an account or a negative position with an institution's counterparties in a private clearing and settlement arrangement.

Nonbank bank—In general, an institution that accepts deposits or makes commercial loans, but does not engage in both activities. A nonbank bank is any institution that became a bank as a result of the enactment of CEBA and was not controlled by a bank holding company on the day before the CEBA enactment.

Overnight overdraft—A negative position in a Federal Reserve account at the Reserve Bank’s close of business.

Posting rules—A schedule used for determining the timing of debits and credits to an institution’s Federal Reserve account for various transactions processed by the Reserve Banks.

PSR policy—The Federal Reserve Policy on Payment System Risk.

Real-time monitoring—The ABMS function that provides the ability to monitor an institution’s Federal Reserve account balance as transactions occur throughout the day and to reject or intercept outgoing funds transfers when they would cause an overdraft in an institution’s Federal Reserve account.

Reserve maintenance period—A two-week period beginning on a Thursday and ending on a Wednesday over which most depository institutions must maintain required reserves and over which daylight overdrafts are monitored and charges may be assessed.

Risk-based capital— Risk-based capital is the “qualifying” or similar capital measure used to satisfy risk-based capital standards, as set forth in the capital adequacy guidelines of the federal financial regulatory agencies. Generally, for domestic banks the relevant capital measure is Tier I plus Tier II capital. Descriptions of capital measures, by type of institution, and related regulatory reports can be found in appendix C.

Self-assessment—A process by which a depository institution assesses its creditworthiness, intraday funds management, operational controls, contingency procedures, and credit policies in order to determine its appropriate cap category for daylight overdraft purposes.

Self-assessed cap—One of three cap categories for which institutions are required to complete a self-assessment. The self-assessment cap categories are average, above average, or high.

Systemic risk—In the context of payment systems, the risk that liquidity or payment problems at one financial institution will be transmitted to other institutions.

U.S. capital equivalency—Capital measure applied to U.S. branches and agencies of foreign banks for purposes of calculating net debit caps and the deductible used to calculate daylight overdraft charges.

Zero cap—The cap category associated with a cap multiple of zero and resulting in a net debit cap of zero. An institution may voluntarily adopt this cap category, or a Reserve Bank may assign a zero cap to certain institutions.