

## 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.

**Account Balance Monitoring System (ABMS)**—The Reserve Bank application that provides institutions that have an electronic connection to Fedwire with access to real-time account balance and collateral information. ABMS also allows Reserve Banks to monitor institutions' account balances and payment activity on a real-time basis and reject or intercept certain transactions. Also see real-time monitoring.

**Account Management Information (AMI)**—A web-based application that provides institutions with real-time access to their intraday account and collateral balances, detailed transaction information, reporting, and inquiry capabilities. For further information refer to <http://www.frbservices.org/serviceofferings/account/ami.html>.

**Administrative Reserve Bank (ARB)**—The Reserve Bank 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.

**ACH**—Automated Clearing House. An electronic batch processing service used to disburse or collect funds.

**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.

**Average daily daylight overdraft**—The amount resulting from the division of the sum of an institution's 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 that has direct or indirect control of a bank. The Bank Holding Company Act provides a federal framework for the supervision and regulation of companies that own or control a bank. (Pub. L. No. 100-86, 101 Stat. 552, available at <http://www.fdic.gov/regulations/laws/rules/6000-100.html>)

**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. The term includes corporate credit unions. 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.

**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 or max cap.

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

**Book-entry securities transfer**—Generally, an electronic transfer of Fedwire-eligible securities (such as securities issued by the U.S. Treasury or a government agency) over the Fedwire Securities Service.

**Borrower-in-Custody (BIC) Arrangement** —An agreement under which the pledging institution retains possession of assets being pledged as collateral but must designate the BIC collateral as being pledged to the Reserve Bank.

**Cap**—See **Net debit cap**.

**Cap breach**—An event in which the negative end-of-minute balance in an institution's Federal Reserve account on any day exceeds its net debit cap.

**Cap category**—An institution's category or class for purposes of determining its daylight overdraft limit, or net debit cap. There are six cap categories: zero, exempt-from-filing, de minimis, average, above average, and high. The average, above-average, and high cap categories are referred to as the self-assessed net debit caps. DIs with self-assessed caps may be eligible to apply for maximum daylight overdraft capacity (max cap).

**Cap multiple**—The factor associated with each cap category that is applied to capital for the purpose 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.

**Collateral available for daylight overdraft purposes**—An institution’s value of Federal Reserve collateral pledged less any outstanding loan advances. When assessing fees, the Federal Reserve compares, ex post, an institution’s end-of-minute value of collateral available for daylight overdraft purposes with the institution’s end-of-minute daylight overdraft to determine whether and how much of that minute’s overdraft was collateralized. Institutions with access to ABMS or to AMI may view their collateral available for daylight overdraft purposes in near-real-time intraday.

**Collateral Management System**—The Federal Reserve’s collateral inventory tracking and transaction processing application that is used to record collateral pledged for discount window, payment system risk, and Treasury programs.

**Collateral value**— The amount of credit that the Federal Reserve will extend against the pledged asset. Collateral value is calculated by multiplying a pledged asset’s observed market price or estimated fair value by the margin assigned to the asset by the Federal Reserve.

**Collateralized capacity** – The additional daylight overdraft capacity available to an institution with an approved max cap through the pledge of collateral. The collateralized capacity available to such institution is calculated as the difference between the approved max cap and the institution’s net debit cap. An institution with an approved max cap may, at any time, pledge collateral to use the collateralized capacity in part or in full.

**Collateralized daylight overdraft** – An institution’s end-of-minute daylight overdraft if the institution’s end-of-minute value of collateral available for daylight overdraft purposes meets or exceeds the value of its daylight overdraft for that minute. See collateral available for daylight overdraft purposes.

**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.

**Corporate credit unions**—See **Bankers’ bank**.

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

**Daylight Overdraft Reporting and Pricing System (DORPS)**—The Reserve Bank application that measures, calculates, and assesses fees to institutions for their use of daylight overdrafts in their Federal Reserve accounts.

**Depository Trust Company (DTC)**—A limited-purpose trust company that acts as the central securities depository for most publicly traded equity securities and many fixed-income securities in the U.S. market. Each Reserve Bank has established a pledge account with DTC through which institutions may pledge securities for discount window and PSR purposes.

**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 Act 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.

**Fedwire Securities Service (FSS)** —A system that provides safekeeping, transfer, and delivery-versus-payment settlement services for securities maintained on the books of the Reserve Banks. FSS maintains in electronic form all marketable U.S. Treasury securities, as well as many federal government agency, government-sponsored enterprise (GSE), and certain international organizations securities. Institutions may pledge eligible FSS securities to their Reserve Bank for discount window and PSR purposes.

**Fee waiver**—Institutions that incur fees for a two-week reserve maintenance period under \$150 will not be assessed any fees, and institutions incurring fees for a two-week reserve maintenance period over \$150 will have their gross fees reduced by \$150. The fee waiver is not available for institutions that do not have regular access to the discount window.

**Field warehouse**—An arrangement whereby collateral pledged to the Reserve Bank is held on the pledging institution’s premises under the Reserve Bank’s exclusive custody and control.

**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)).

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**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.

**Fully collateralized cap breach waiver**— An institution with a self assessed or de minimis net debit cap may exceed its net debit cap without violating the policy if the institution has fully collateralized all cap breaches on a given day. Under the waiver, institutions may fully collateralize up to two cap breaches in two consecutive reserve maintenance periods (four weeks).

**Government-sponsored enterprises (GSEs)**— Corporations chartered by Congress to perform certain financial market functions deemed to be in the public interest. These entities include Fannie Mae, the Federal Home Loan Mortgage Corporation (Freddie Mac), entities of the Federal Home Loan Bank (FHLB) System and the Farm Credit Bank (FCB) System, Federal Agricultural Mortgage Corporation (Farmer Mac), the Financing Corporation, and the Resolution Funding Corporation.

**Gross overdraft charge**—A daylight overdraft charge calculated, based on average overdrafts, before being reduced by the fee waiver for eligible institutions.

**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.

**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.

**Industrial loan company (ILC)**—An entity that is not a bank, as defined under the Bank Holding Company Act (BHCA), and that does not accept certain types of demand deposits, has less than \$100 million in total assets, or has not undergone any change in control since the enactment of CEBA. An ILC is also excluded from the definition of bank under the BHCA if it does not “engage in any activity in which it was not lawfully engaged” before the enactment of CEBA.

**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.

**In-transit securities**—Book-entry securities transferred over the Fedwire Securities Service that have been purchased by a depository institution but not yet paid for and owned by the institution’s customers.

**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.

**Margin**—A percentage applied to the observed market price or estimated fair market value of an asset to mitigate the risk that the observed market price or estimated market value of an asset will decline over time. The Federal Reserve’s margins are based on risk characteristics of the pledged asset as well as the anticipated volatility of the fair market value of the pledged asset over an estimated liquidation time frame.

**Maximum daylight overdraft capacity**—An institution’s 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 collateralized and uncollateralized daylight overdrafts an institution is permitted to incur in its Federal Reserve account at any point in the day. 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.

**Overdraft**—See daylight overdraft, overnight overdraft.

**Overnight overdraft**—A negative position in a Federal Reserve account at the Reserve Bank’s close of business. Overnight overdrafts are subject to the overnight overdraft penalty fee.

**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. Part II of the policy is most relevant for purposes of this guide. For further information refer to [http://www.federalreserve.gov/paymentsystems/psr\\_policy.htm](http://www.federalreserve.gov/paymentsystems/psr_policy.htm).

**Real-time monitoring**—The ABMS function that provides Reserve Banks with 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 (RMP)**—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. Institutions that file a quarterly FR 2900 deposit report have a seven-day reserve maintenance period.

**Risk-based capital**— 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 own 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**—The risk that the failure of or a disruption to the functioning of a financial market utility or a financial institution could create or increase the risk of significant liquidity or credit problems spreading among financial institutions or markets and thereby threaten the stability of the US financial system.

**Third Party Custody Pledging Arrangements** —An institution may designate a third party custodian to provide collateral custody services. Third party custody arrangements involve an institution (borrower), another institution that holds the assets to be pledged (custodian), and the Reserve Bank (lender).

**Treasury Tax and Loan (TT&L)** — A program where institutions collect tax payments or deposits on behalf of Treasury. Institutions must cover the funds with collateral and must pay Treasury interest for use of the funds. Collateral pledged for this program is held in the TT&L account, which is separate from an institution's FR account.

**Uncollateralized daylight overdraft** – An institution's end-of-minute daylight overdraft if the institution's end-of-minute value of collateral available for daylight overdraft purposes is less than the value of its daylight overdraft for that minute. See collateral available for daylight overdraft purposes.

**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.