

account (including a transaction account) of the depositor at the same institution or to a third party, regardless of the number of such transfers and withdrawals or the manner in which such transfers and withdrawals are made.

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(e) *Transaction account* means a deposit or account from which the depositor or account holder is permitted to make transfers or withdrawals by negotiable or transferable instrument, payment order of withdrawal, telephone transfer, or other similar device for the purpose of making payments or transfers to third persons or others or from which the depositor may make third party payments at an automated teller machine (ATM) or a remote service unit, or other electronic device, including by debit card. Transaction account includes:

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(2) Deposits or accounts on which the depository institution has reserved the right to require at least seven days' written notice prior to withdrawal or transfer of any funds in the account and that are subject to check, draft, negotiable order of withdrawal, share draft, or other similar item, including accounts described in paragraph (d)(2) of this section (savings deposits) and including accounts authorized by 12 U.S.C. 1832(a) (NOW accounts).

(3) Deposits or accounts on which the depository institution has reserved the right to require at least seven days' written notice prior to withdrawal or transfer of any funds in the account and from which withdrawals may be made automatically through payment to the depository institution itself or through transfer or credit to a demand deposit or other account in order to cover checks or drafts drawn upon the institution or to maintain a specified balance in, or to make periodic transfers to such accounts, including accounts authorized by 12 U.S.C. 371a (automatic transfer accounts or ATS accounts).

(4) Deposits or accounts on which the depository institution has reserved the right to require at least seven days' written notice prior to withdrawal or transfer of any funds in the account and under the terms of which, or by practice of the depository institution, the depositor is permitted or authorized to make withdrawals for the purposes of transferring funds to another account of the depositor at the same institution (including transaction account) or for making payment to a third party, regardless of the number of such transfers and withdrawals and

regardless of the manner in which such transfers and withdrawals are made.

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(6) All deposits other than time deposits, including those accounts that are time deposits in form but that the Board has determined, by rule or order, to be transaction accounts.

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By order of the Board of Governors of the Federal Reserve System, April 23, 2020.

**Ann Misback,**

*Secretary of the Board.*

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## FEDERAL RESERVE SYSTEM

### 12 CFR Chapter II

[Docket No. OP-1716]

#### Temporary Actions To Support the Flow of Credit to Households and Businesses by Encouraging Use of Intraday Credit

**AGENCY:** Board of Governors of the Federal Reserve System.

**ACTION:** Policy statement.

**SUMMARY:** Due to the extraordinary disruptions from the coronavirus disease 2019 (COVID-19), the Board of Governors of the Federal Reserve System (Board) is announcing temporary actions aimed at encouraging healthy depository institutions to utilize intraday credit extended by Federal Reserve Banks (Reserve Banks). The Board recognizes that the Federal Reserve has an important role in providing intraday balances and credit to foster the smooth operation of the payment system. These temporary actions are intended to support the provision of liquidity to households and businesses and the general smooth functioning of payment systems.

**DATES:** These temporary actions are effective on April 24, 2020, and will expire on September 30, 2020.

**FOR FURTHER INFORMATION CONTACT:** Jason Hinkle, Assistant Director (202-912-7805), Brajan Kola, Senior Financial Institution Policy Analyst (202-736-5683) Division of Reserve Bank Operations and Payment Systems or Evan Winerman, Senior Counsel (202-872-7578), Legal Division, Board of Governors of the Federal Reserve System. For users of Telecommunications Device for the Deaf (TDD) only, please contact 202-263-4869.

**SUPPLEMENTARY INFORMATION:**

## I. Background

Part II of the Federal Reserve Policy on Payment System Risk (PSR policy) governs the provision of intraday credit (also known as daylight overdrafts) to depository institutions (institutions) with accounts at the Reserve Banks.<sup>1</sup> The Board recognizes that the Federal Reserve has an important role in providing intraday balances and credit to foster the smooth operation of the payment system. Under the PSR policy, an institution that is “financially healthy” and has regular access to the discount window is eligible for intraday credit.<sup>2</sup> The PSR policy establishes limits, or “net debit caps,” on the value of an institution’s uncollateralized daylight overdrafts.<sup>3</sup> The PSR policy also allows an institution with a self-assessed net debit cap to request, at Reserve Bank discretion, collateralized capacity in addition to its uncollateralized net debit cap under the “maximum daylight overdraft capacity” (max cap) program.<sup>4</sup>

The spread of COVID-19 has disrupted economic activity in the United States and in many other countries. In addition, financial markets have experienced significant volatility. In light of these developments, institutions may face unanticipated intraday liquidity constraints and demands on collateral pledged to the Reserve Banks. In response, the Board has announced a series of actions to support the flow of credit to households and businesses to mitigate the disruptions from COVID-19.<sup>5</sup> As part of this response, the Board has encouraged “institutions to utilize intraday credit extended by Reserve Banks, on both a collateralized and uncollateralized basis, to support the provision of liquidity to households and businesses and the general smooth functioning of payment systems.”<sup>6</sup>

As described below, the Board is taking temporary actions that will improve institutions’ access to Reserve Bank intraday credit, provide institutions a ready and flexible source of intraday funds to efficiently manage their liquidity risk, and help institutions focus on other activities that support lending to households and businesses.

<sup>1</sup> See [https://www.federalreserve.gov/paymentsystems/psr\\_about.htm](https://www.federalreserve.gov/paymentsystems/psr_about.htm).

<sup>2</sup> See section II.D.1 of the PSR policy.

<sup>3</sup> *Id.*

<sup>4</sup> See section II.E of the PSR policy.

<sup>5</sup> For a summary of actions, see <https://www.federalreserve.gov/covid-19.htm>.

<sup>6</sup> See *Federal Reserve Actions to Support the Flow of Credit to Households and Businesses* press release, March 15, 2020, available at <https://www.federalreserve.gov/newsevents/pressreleases/monetary20200315b.htm>.

The temporary actions can be deployed relatively quickly and will complement other Board initiatives to encourage use of Reserve Bank credit.

## II. Discussion of Temporary Actions

### A. Suspension of Net Debit Caps and Waiver of Fees

As noted above, the PSR policy provides access to intraday credit to healthy institutions, subject to net debit caps and fees for uncollateralized overdrafts. The Board is temporarily lifting net debit caps and fees for these institutions. For the sake of simplicity and to ensure immediate effectiveness, institutions that are eligible to borrow under the Federal Reserve's primary credit program for the discount window (primary credit institutions) are eligible for these temporary measures.<sup>7</sup> As a result, primary credit institutions will not be expected to manage activity in their Federal Reserve account to avoid daylight overdrafts in excess of their net debit caps, and Reserve Banks will not counsel primary credit institutions for daylight overdrafts that exceed their net debit caps.<sup>8</sup> Additionally, Reserve Banks will waive all fees for daylight overdrafts, including uncollateralized daylight overdrafts, incurred by primary credit institutions. The Reserve Banks will apply these temporary actions automatically.<sup>9</sup>

The Board does not believe that these actions will meaningfully increase credit risk to Reserve Banks because the provisions will only apply to financially healthy institutions, and the majority of daylight overdrafts during the period are likely to be collateralized.<sup>10</sup> Further, Reserve Banks will continue to monitor an institution's eligibility for primary credit using financial and supervisory information in order to manage the risk exposure to Reserve Banks. The Board expects that primary credit institutions will continue to use their own systems and procedures, as well as the Federal Reserve's systems, to monitor their

<sup>7</sup> The Reserve Banks' primary credit program is available to institutions that are in generally sound financial condition. 12 CFR 201.4(a).

<sup>8</sup> Except for several exceptions outlined in the PSR policy, the Federal Reserve considers all cap breaches to be violations of the PSR policy. A policy violation initiates a series of Reserve Bank counseling actions aimed at deterring an institution from exceeding its allowed capacity for intraday credit.

<sup>9</sup> The Reserve Banks generally monitor institutions' compliance with the PSR policy over each two-week reserve maintenance period. The temporary actions adopted in this document will apply to the current two-week reserve maintenance period.

<sup>10</sup> Approximately 95 percent of average daylight overdrafts are collateralized. See [https://www.federalreserve.gov/paymentsystems/psr\\_data.htm](https://www.federalreserve.gov/paymentsystems/psr_data.htm).

Federal Reserve account balances and payment activities. Furthermore, primary credit institutions will continue to be expected to extinguish any daylight overdrafts prior to the close of the Fedwire operating day.

### B. Streamlined Max Cap Procedure

The Board is also taking temporary actions to encourage usage of collateralized intraday credit by institutions that are eligible only for the Reserve Banks' secondary credit discount window program (secondary credit institutions).<sup>11</sup> Although secondary credit institutions will remain ineligible for uncollateralized net debit caps, the Board is adopting a streamlined process that will allow secondary credit institutions to request collateralized capacity from their Reserve Banks under the max cap program.<sup>12</sup> The Board is waiving the requirement that an institution first obtain a self-assessed net debit cap and a board of directors resolution before it requests a max cap.

The Board does not believe that this change will meaningfully increase credit risk to Reserve Banks because the intraday overdrafts would be collateralized. In order to manage their risk exposure, Reserve Banks will continue to monitor an institution's condition using financial and supervisory information. The Reserve Banks will also monitor an institution's account balance in real-time, rejecting or delaying certain transactions that would exceed the secondary credit institution's max cap.<sup>13</sup> Like primary credit institutions, secondary credit institutions will be expected to extinguish any daylight overdrafts prior to the close of the Fedwire operating day.

### C. Termination of Temporary Actions

The temporary actions discussed above will terminate on September 30, 2020 unless the Board communicates otherwise prior to that date.

<sup>11</sup> Secondary credit is a lending program that is available to depository institutions that are not eligible for primary credit. See generally 12 CFR 201.4(b). Institutions covered under section II.F of the PSR policy (Special Situations) will not be eligible for collateralized intraday credit.

<sup>12</sup> See Section II.E of the PSR policy. All collateral must be acceptable to the administrative Reserve Banks. Collateral eligibility and margins are the same for PSR policy purposes as for the discount window. See <http://www.frbdiscountwindow.org/> for more information.

<sup>13</sup> Pledging less collateral reduces the effective maximum daylight overdraft capacity level; however, pledging more collateral will not increase the maximum daylight overdraft capacity above the approved level.

## III. Competitive Impact Analysis

When considering changes to an existing service, the Board conducts a competitive impact analysis to determine whether there will be a direct and material adverse effect on the ability of other service providers to compete effectively with the Federal Reserve in providing similar services due to differing legal powers or the Federal Reserve's dominant market position deriving from such legal differences.<sup>14</sup>

The Board believes that the temporary actions will have no adverse effect on the ability of other service providers to compete with the Reserve Banks in providing similar services. While the temporary relaxation of the PSR policy will provide institutions with additional intraday credit in their Federal Reserve accounts, institutions may use this credit to fund payments activity using private sector or Reserve Bank services, at their discretion.

## IV. Paperwork Reduction Act

In accordance with section 3512 of the Paperwork Reduction Act of 1995 (44 U.S.C. 3501–3521) (PRA), the Board may not conduct or sponsor, and a respondent is not required to respond to, an information collection unless it displays a currently valid Office of Management and Budget (OMB) control number. The Board is suspending the collection of information under the Annual Daylight Overdraft Capital Report for U.S. Branches and Agencies of Foreign Banks (FR 2225, OMB Number 7100–0216) and the Annual Report of Net Debit Cap (FR 2226, OMB Number 7100–0217). The Board has reviewed these temporary measures pursuant to the authority delegated by the OMB and has determined that they do not contain any new collections of information pursuant to the PRA.

By order of the Board of Governors of the Federal Reserve System, April 23, 2020.

**Ann Misback,**

*Secretary of the Board.*

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<sup>14</sup> See The Federal Reserve in the Payments System (issued 1984; revised 1990), Federal Reserve Regulatory Service 9–1558.