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Press Release

December 19, 2008

Board adopts revisions to Payment System Risk policy

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The Federal Reserve Board on Friday adopted revisions to its Payment System Risk (PSR) policy that are designed to improve intraday liquidity management and payment flows for the banking system, while also helping to mitigate the credit exposures of the Federal Reserve Banks from daylight overdrafts. The Board has spent several years reviewing long-term developments in intraday liquidity, operational risk, and risk management in financial markets and the payments system, including the increased use of daylight overdrafts at the Federal Reserve Banks and increased Fedwire funds transfers late in the day. The Board published a consultation paper on these issues in 2006 and proposed major changes to the PSR policy in early 2008.

Based on the comments on the proposed changes, the Board adopted changes to the PSR policy that are substantially the same as those proposed for comment. The revised PSR policy will adopt a new approach that explicitly recognizes the role of the central bank in providing intraday balances and credit to healthy depository institutions predominately through collateralized daylight overdrafts. To avoid significantly disrupting the operation of the payment system and increasing the cost burden on a large number of institutions that incur small amounts of daylight overdrafts, the Board approved a voluntary collateral regime that would encourage the pledging of collateral to cover daylight overdrafts by providing collateralized daylight overdrafts at a

zero fee and by raising the fee for uncollateralized daylight overdrafts to 50 basis points (annual rate). The Board also sought to minimize the effect of the policy changes on institutions that use small amounts of daylight overdrafts and approved a substantial increase in the biweekly fee waiver to \$150 from \$25.

In addition, the Board approved changes to other elements of the PSR policy dealing with daylight overdrafts, including adjusting net debit caps, streamlining maximum daylight overdraft capacity (max cap) procedures for certain foreign banking organizations, eliminating the current deductible for daylight overdraft fees, and increasing the penalty daylight overdraft fee for ineligible institutions to 150 basis points (annual rate). The implementation of the revised PSR policy will take effect either in the fourth quarter of 2010 or the first quarter of 2011. A specific date will be announced by the Board at least 90 days in advance.

The Board also approved for eligible foreign banking organizations an interim policy change. The interim policy relates to the calculation of the deductible amount from daylight overdraft fees under the existing policy, which will be discontinued with the elimination of the deductible under the revised PSR policy. The interim policy also allows for the early implementation of the streamlined procedure for max caps, which will remain under the revised PSR policy. The interim policy change for the deductible and streamlined max cap procedure will be effective on March 26, 2009.

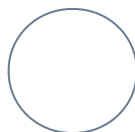
Lastly, the Board endorsed a four-prong strategy, which includes these policy changes, through which the Federal Reserve and industry will address related intraday liquidity, operational, and credit risks in the wholesale payment system. Industry and Federal Reserve efforts are ongoing with these initiatives.

To assist depository institutions in assessing the impact of the revised PSR policy on their institution, the Board has created a simple fee calculator that will allow institutions to estimate their new daylight overdraft fees. The fee calculator is located on the Board's website at <https://www.federalreserve.gov/apps/RPFCalc/>.

The Board's notice is attached.

Federal Register Notice: [133 KB PDF](#) | [TEXT](#)

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