

FEDERAL RESERVE SYSTEM
Docket No. R-0989
Policy Statement on Payments System Risk
Modification to the Time Credits are Posted to Federal Reserve Accounts for Checks Drawn on
Local Federal Reserve Banks for Purposes of Measuring Daylight Overdrafts

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Policy Statement.

SUMMARY: The Board has modified the daylight overdraft measurement rules to accommodate an earlier afternoon presentment deadline for checks drawn on local Federal Reserve Banks.

EFFECTIVE DATE: Immediate

FOR FURTHER INFORMATION CONTACT: Myriam Payne, Senior Financial Services Analyst (202/452-3219), or Stacy Panigay, Financial Services Analyst (202/452-2934), Division of Reserve Bank Operations and Payment Systems; for the hearing impaired only: Telecommunications Device for the Deaf, Diane Jenkins (202/452-3544).

SUPPLEMENTARY INFORMATION:

Background

When the Board modified the Payments System Risk Reduction policies in 1992 (57 FR 47093, October 14, 1992), it adopted a set of “posting rules” which comprise a schedule for the intraday timing of debits and credits to institutions’ Federal Reserve accounts for different types of payments. With the implementation of these rules along with the imposition of fees for daylight overdrafts, the Board was interested in inducing behavioral changes to control risk and increase efficiency in the payments system. Under the daylight overdraft measurement rules that became effective on October 14, 1993, depository institutions that deposit in separately sorted cash letters Checks Drawn on Local Federal Reserve Banks (i.e., Federal Funds checks), U.S. Treasury Checks, Postal Money Orders, and U.S. Savings Bonds Deposited under the EZ-Clear Program by 4:00 p.m. ET receive credit for these items at 5:00 p.m. ET.

Analysis of Federal Funds Checks Presentment Deadline

The Board believes that establishing a consistent presentment deadline for Federal Funds checks in all Federal Reserve districts will help reduce the routine use of Federal Funds checks.¹ Federal Funds checks are an inappropriate means of providing regular access to an institution’s Federal Reserve account and their routine use is contrary to the Federal Reserve’s strategy of promoting efficient and effective methods of payment. In almost all cases where Federal Funds checks are used as the payment instrument, the transaction could have been made through a more secure and efficient method, such as a funds transfer network. To discourage the use of Federal Funds checks and encourage depository institutions’ use of more efficient means of payment, a 3:00 p.m. local time presentment deadline for Federal Funds checks will be implemented.

Policy Statement on Payments System Risk

The Federal Reserve Board has adopted the following changes to the “Federal Reserve System Policy Statement on Payments System Risk,” under the heading “I. Federal Reserve Policy”:

Modified Procedures for Measuring Daylight Overdrafts

Post at 5:00 p.m. Eastern Time:

- + Treasury checks, postal money orders, and EZ-Clear Savings Bond redemptions in separately sorted deposits
These items must be deposited by 4:00 p.m. Eastern Time.
- + Local Federal Reserve Bank checks
These items must be presented before 3:00 p.m. Eastern Time .

¹Federal Funds checks are drafts drawn by a depository institution against its account at a Federal Reserve Bank. These funds represent immediately available funds when presented for payment, and thus, when used, the checks are most often used to settle same-day securities transactions, interbank transfers, international transactions, real estate transactions, payments to state and local governments, Federal Reserve Bank transactions and for other situations where a bank check is required for legal reasons.

+ Processed manual letters of credit

+/- Same-day ACH transactions

These transactions include ACH return items, check truncation items, and flexible settlement items .

Post after the close of Fedwire funds transfer system:

+/- All other non-Fedwire transactions

These transactions include the following: local Federal Reserve Bank checks presented after 3:00 p.m. Eastern Time but before 3:00 p.m. local time; noncash collection; credits for U.S. Treasury and government agency definitive security interest and redemption payments if the coupons or securities are received on or after the maturity date; Treasury Tax and Loan (TT&L) calls; subscriptions for SLGS; currency and coin shipments; small-dollar credit adjustments; all debit adjustments; and small-dollar check collections. Discount window loans and repayments are normally posted after the close of Fedwire as well; however, in unusual circumstances a discount window loan may be posted earlier in the day with repayment 24 hours later, or a loan may be repaid before it would otherwise become due.

By order of the Board of Governors of the Federal Reserve System, November 7, 1997.

Jennifer J. Johnson,
Deputy Secretary of the Board.
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