



**Federal Reserve Banks
Operating Circular No. 1**

ACCOUNT RELATIONSHIPS

Effective September 1, 2023

**FEDERAL RESERVE BANKS
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(Click CTRL + section or page number to go directly to the section)

1.0 INTRODUCTION.....	1
2.0 ACCOUNT RELATIONSHIPS	1
2.1 INTRODUCTION.....	1
2.2 DEFINITIONS.....	2
2.3 MASTER ACCOUNT	4
2.4 TRANSACTION REPORTING.....	5
2.5 LOCATION OF ACCOUNT HOLDERS.....	5
2.6 ESTABLISHING A MASTER ACCOUNT.....	5
2.7 CORRESPONDENT – RESPONDENT TRANSACTION, SETTLEMENT AND SERVICE FEE RELATIONSHIPS.....	6
2.8 CORRESPONDENT – RESPONDENT PASS-THROUGH RELATIONSHIPS	7
2.9 FED FUNDS CHECKS.....	8
2.10 TERMINATING A MASTER ACCOUNT AGREEMENT, PASS-THROUGH AGREEMENT, SETTLEMENT AUTHORIZATION FORM, OR OTHER AGREEMENT	8
2.11 RISK CONTROLS AND CONDITIONS ON SETTLEMENT ARRANGEMENTS, ACCOUNTS AND FINANCIAL SERVICES	9
2.12 MAINTENANCE OF AGREEMENTS AND OTHER RECORDS.....	9
3.0 SETTLEMENT	10
4.0 STATEMENTS AND ACCOUNTING INFORMATION SERVICES.....	10
4.1 STATEMENT OF ACCOUNT	10
4.2 STATEMENT OF AND SETTLEMENT FOR SERVICE CHARGES.....	10

4.3	ACCOUNTING INFORMATION SERVICES	11
5.0	OVERDRAFTS.....	11
5.1	OVERDRAFT POLICY.....	11
5.2	COLLECTION OF OVERDRAFTS	11
5.3	SECURITY INTEREST	12
6.0	RESERVE BANK RESPONSE PROGRAM FOR UNAUTHORIZED ACCESS TO SENSITIVE CONSUMER INFORMATION OBTAINED IN THE COURSE OF PROVIDING FINANCIAL SERVICES	12
6.1	THE RESERVE BANK'S POSSESSION AND USE OF CONSUMER INFORMATION	12
6.2	INCIDENT RESPONSE BY THE RESERVE BANK	13
6.3	RECEIPT OF UNINTENDED SENSITIVE CONSUMER INFORMATION BY A FINANCIAL INSTITUTION	14
6.4	COSTS	14
7.0	GENERAL.....	15
7.1	DUTY OF CARE	15
7.2	RELIANCE ON AUTHORIZATIONS	15
7.3	DISCLOSURE OF INFORMATION	15
7.4	FEEDBACK	16
7.5	GOVERNING LAW AND ACTIONS	16
7.6	RIGHT TO AMEND	16

1.0 INTRODUCTION¹

This operating circular and its appendices (Circular) set forth the terms under which a Financial Institution may request to open, maintain, and terminate a Master Account with its Administrative Reserve Bank. It also contains general provisions regarding Financial Services applicable to any Financial Institution, whether or not it maintains a Master Account at a Federal Reserve Bank (Reserve Bank). The Circular describes the tools that an Account Holder may utilize to segregate, report and settle Debit and Credit Transaction Activity in its Master Account and includes terms and conditions applicable to the relationship the Account Holder may have as a Correspondent with other separately chartered Financial Institutions as Respondents. This Circular also incorporates additional terms applicable to settlement procedures, statement and accounting information services, overdraft policies, and the Federal Reserve Bank response program for unauthorized access to Sensitive Consumer Information obtained in the course of providing Financial Services.

A Master Account is subject to other applicable Federal Reserve regulations and policies relating to accounts maintained at Reserve Banks, such as Regulation D (Reserve Requirements of Depository Institutions, 12 CFR 204) and the Federal Reserve Policy Statement on Payments System Risk, as they may be revised from time to time. Other types of Reserve Bank accounts may be offered from time to time for purposes of facilitating monetary policy goals, such as Excess Balance Accounts and Term Deposit Facility accounts. These other types of Reserve Bank accounts are not Master Accounts and are established by executing separate account agreements and other required documentation with the eligible Financial Institution and its ARB.

2.0 ACCOUNT RELATIONSHIPS

2.1 INTRODUCTION

The Reserve Banks generally maintain no more than one debtor-creditor relationship with a Financial Institution. Under this structure, an Account Holder may only maintain a single Master Account with its Administrative Reserve Bank unless a specific exception applies as described in Section 2.3.²

Additionally, an Account Holder may act as a Correspondent by authorizing its Administrative Reserve Bank to settle certain transactions of Respondents in its Master Account.³

A Financial Institution's ARB administers all aspects of Federal Reserve account management through an Account Holder's Master Account, including balance

¹ The capitalized terms used in the Circular are defined in Section 2.2.

² An exception applies to those Financial Institutions currently required or permitted to have multiple Master Accounts pursuant to regulation, e.g., U.S. branches and agencies of foreign banks, and Edge Act and Agreement Corporations.

³ Custodial Inventory Program transactions, Fed Funds checks and Fedwire® Funds transactions may not be settled in a Correspondent's account. They must settle in a Financial Institution's own Master Account. Fedwire is a registered service mark of the Federal Reserve Banks.

administration, overnight overdraft monitoring, daylight overdraft monitoring, and discount window access.

2.2 DEFINITIONS

For purposes of this Circular, the following definitions apply:

- a) **Account Holder** means a Financial Institution that has opened and maintains a Master Account with its Administrative Reserve Bank (or any other Reserve Bank maintaining a Master Account identified in Section 2.3).
- b) **Administrative Reserve Bank (ARB)** means the Reserve Bank in the Federal Reserve District in which the Financial Institution is located, as determined under the procedure described in 12 CFR Part 204, even if the Financial Institution is not otherwise subject to that chapter, or if the Financial Institution maintains an account on the books of a different Reserve Bank. See also Section 2.5.
- c) **Board of Governors** means the Board of Governors of the Federal Reserve System.
- d) **Consumer** means a natural person who maintains an account with or obtains financial services from a Financial Institution.
- e) **Correspondent** means a Financial Institution: (1) that has authorized a Reserve Bank to settle Debit and Credit Transaction Activity to its Master Account for a Respondent or for any Financial Institution for which the Respondent acts as Correspondent; or (2) that maintains a “balance to satisfy the reserve balance requirement”, as defined in Regulation D, for one or more Financial Institutions in its Master Account.
- f) **Debit and Credit Transaction Activity** refers to any debits and credits, including service charges, associated with a Primary or Secondary RTN and that settle in a Financial Institution’s Master Account.
- g) **Event of Default** means any of the following:
 - the Financial Institution fails to repay or satisfy any overdraft or other obligation owed to one or more Reserve Banks when due and payable;
 - the Insolvency of the Financial Institution; or
 - whenever a Reserve Bank deems itself insecure with respect to the financial condition of the Financial Institution or the Financial Institution’s ability to perform its obligations.
- h) **Financial Institution** means an institution that is:
 - a member bank, as defined in Section 1 of the Federal Reserve Act (12 U.S.C. § 221);

- a depository institution, as defined in Section 19(b)(1)(A) of the Federal Reserve Act (12 U.S.C. § 461(b)(1)(A));⁴
 - a U.S. branch or agency of a foreign bank, as defined in Section 211.21(b) or (e) of Regulation K (12 CFR § 211.21(b) or (e));
 - an Edge Act corporation as organized under Section 25A of the Federal Reserve Act (12 U.S.C. §§ 611-14), or a corporation that has entered into an agreement with the Board of Governors to limit its activities to those of an Edge Act corporation under Section 25(5) of the Federal Reserve Act (12 U.S.C. § 603) and Regulation K (12 CFR § 211.5(g)(1) (an Agreement Corporation), or
 - any other entity authorized to have a Master Account with a Reserve Bank.⁵
- i) **Financial Services** means any of the financial services provided by a Reserve Bank pursuant to an operating circular and includes Accounting Information Services as defined in paragraph 4.3 but not including: (1) services that are provided by the Reserve Banks as fiscal agent for the Treasury, and (2) any activities governed by Operating Circular 10, “Lending.”
- j) **Incident** means an event or series of events that causes a Reserve Bank to determine that misuse of Sensitive Consumer Information has occurred or is reasonably possible.
- k) **Insolvency** means:
- that the Financial Institution has been closed by order of its supervisory authorities, or a public officer, receiver, custodian, conservator, or the like as appointed for the Financial Institution;
 - that the Financial Institution ceases or refuses to make payments in the ordinary course of business; or
 - any other circumstances that evince the Financial Institution’s inability to pay its debts when due.
- l) **Master Account** means the record of financial rights and obligations of an Account Holder and the ARB (or any other Reserve Bank maintaining a Master Account identified in Section 2.3) with respect to each other, where opening,

⁴ Section 19(b)(1)(A) generally defines “depository institution” to include commercial banks, mutual savings banks, federal savings banks, savings and loan associations, and credit unions.

⁵ Other entities that may be authorized under other legal authority to maintain an account with a Reserve Bank, such as the U.S. Treasury, U.S. government agencies, and government sponsored enterprises, are not subject to this Circular unless they have so agreed in writing. Fiscal principals that have entered into the Uniform Fiscal Agency Agreement, effective as of July 20, 2006, as it may be amended from time to time, are “Financial Institutions” for purposes of this Circular.

intraday, and closing balances are determined. A Master Account is identified by a Primary RTN.

- m) **Respondent** means: (1) a Financial Institution that settles Debit and Credit Transaction Activity for some or all its Reserve Bank transactions in the Master Account of a Correspondent; or (2) a Financial Institution that maintains a “balance maintained to satisfy the reserve balance requirement,” as defined in Regulation D, in the Master Account of a Correspondent.
- n) **Routing Transit Number (RTN)** (also known as an “ABA number”) is a nine digit number assigned by the American Bankers Association (ABA) Routing Number Registrar to identify a Financial Institution.
- o) **Primary RTN** is the Routing Transit Number assigned by the ABA Routing Number Registrar that is associated with a Financial Institution’s main office.⁶ Generally, a Financial Institution may only have one Primary RTN.
- p) **Secondary RTN** is an RTN, other than the Primary RTN, that has been assigned to a Financial Institution by the Routing Number Registrar.
- q) **Sensitive Consumer Information** means a Consumer’s name, address or telephone number, in conjunction with the Consumer’s social security number, driver’s license number, account number, credit or debit card number, or a personal identification number or password that would permit access to the Consumer’s account, if the Reserve Bank or any other party that holds Sensitive Consumer Information as an agent of the Reserve Bank obtains such information in the course of providing Financial Services.

Other terms are defined within this Circular.

2.3 MASTER ACCOUNT

Except as provided below, a Financial Institution may maintain only one Master Account with its ARB. Debit and Credit Transaction Activity of the Financial Institution or of the Financial Institution’s Respondents with or through any Reserve Bank, regardless of location, is settled in the Financial Institution’s Master Account.

A Financial Institution may have only one Master Account, except that:

- it may retain, for a transitional period not to exceed 12 months, the Master Account of an acquired, failed, or a non-surviving Financial Institution with which it has merged or consolidated. The ARB may restrict the use of such an account as it deems necessary or appropriate, and may require that the Financial Institution execute a security agreement covering multiple Master Accounts;

⁶ An RTN can be issued to a "Financial Institution" by the ABA Routing Number Registrar if it is eligible for a Master Account at a Federal Reserve Bank. In some cases, an ARB may issue a Customer Identification Number (CIN), which may be used as a Primary RTN or Secondary RTN for purposes of Reserve Bank processing.

- a U.S. branch or agency of a foreign bank, an Edge Act corporation, or an Agreement Corporation may maintain a single Master Account, or it may maintain a Master Account for each group of offices located in the same state and the same Federal Reserve District; and
- an ARB may, in its discretion, allow multiple Master Accounts in other situations.

If a Financial Institution is allowed to have multiple Master Accounts, any reference in this Circular to “Master Account” should be read as “Master Accounts.”

2.4 TRANSACTION REPORTING

A Financial Institution may request its ARB to have certain Debit and Credit Transaction Activity and service fees segregated for reporting purposes. As a general matter, such segregation is based on Secondary RTNs used in a specific transaction. Secondary RTNs may be used to identify a branch, or an acquired or merged Financial Institution, or otherwise identify groupings of Debit and Credit Transaction Activity.

A Financial Institution that wishes to establish information reporting by routing number should consult with its ARB for further information on the reporting structures that are available and any limits on such reporting.

2.5 LOCATION OF ACCOUNT HOLDERS

A Financial Institution may apply to open a Master Account with the Reserve Bank in the Federal Reserve District in which the Financial Institution is located.

A Financial Institution’s location is specified in Regulation D. Under Regulation D, a Financial Institution is located in the Federal Reserve District specified in its charter or organizing certificate (or, if no such location is specified, in the District where its head office is located), unless the Board of Governors has determined otherwise (see Section 204.3(g)(2) of Regulation D).

The Financial Institution shall notify its ARB of a location change within a reasonable amount time after the regulatory approval of such move, but in any event prior to the date such move is effectuated.

2.6 ESTABLISHING A MASTER ACCOUNT

Except for a U.S. branch or agency of a foreign bank, in order to establish a Master Account with its ARB, the Board of Directors of a Financial Institution must pass resolutions (in a form prescribed by the Reserve Banks) that authorize certain individuals to conduct business on behalf of the Financial Institution (Authorized Individuals).⁷ The Financial Institution must provide its ARB with a Certificate of Board Resolutions as well as an Official Authorization List (OAL) which identifies

⁷ Applicable forms are available on the [Federal Reserve Bank Services website](#) under [Accounting Services Forms](#).

Authorized Individuals. An Authorized Individual must then execute a Master Account Agreement (in the form of Appendix 1) or, if permitted by the ARB, such other agreement that binds the Financial Institution to this Circular.

A U.S. branch or agency of a foreign bank must execute the Foreign Banking Institution Account Agreement and provide resolutions as well as U.S. and foreign opinions of counsel that are acceptable to the ARB. The Foreign Banking Institution Account Agreement and the additional required documentation are available upon request from the foreign Financial Institution's ARB.⁸

A Reserve Bank has discretion in deciding whether to provide a Financial Institution with access to a Master Account and may require a Financial Institution to provide additional information and documentation to the Reserve Bank to support its decision making.

A Financial Institution must execute a "Master Account Agreement" (in the form of Appendix 1) to open a Master Account. By opening or maintaining a Master Account, a Financial Institution agrees to be bound by all the provisions of this Circular and of all other Federal Reserve Bank operating circulars, as amended from time to time, that cover services that it obtains from any Reserve Bank. Each Master Account Agreement is subject to approval by the Financial Institution's ARB.

2.7 CORRESPONDENT – RESPONDENT TRANSACTION, SETTLEMENT AND SERVICE FEE RELATIONSHIPS

An Account Holder may agree to act as a Correspondent and allow its Master Account to be used to settle certain transactions and service fees for a Respondent. To establish a Correspondent – Respondent relationship, the Correspondent and the Respondent both must execute a "Transaction and Service Fee Settlement Authorization Form" (in the form of Appendix 2). A separate Transaction and Service Fee Settlement Authorization Form is necessary for each Correspondent/Respondent relationship except that a Respondent will not be required to execute a new form where its named Correspondent chooses to settle to another Financial Institution's Master Account.⁹ Each executed Transaction and Service Fee Settlement Authorization Form is subject to approval by the ARB of the Correspondent and the ARB of the Respondent. Correspondent – Respondent relationships cannot be established for Fedwire[®] Funds Service transactions, Fed Funds checks, and Custodial Inventory Program transactions, which must settle in a Financial Institution's own Master Account.¹⁰

Financial Institutions that do not have a Master Account must identify a Correspondent that agrees to settle any of such Financial Institution's Debit and Credit Transaction Activity. A Financial Institution that does have a Master Account

⁸ See [Accounting Services Forms](#) - Board Resolution and Authorized Approver Packages, [Foreign Bank Board Resolution and OAL](#).

⁹ Unless a Respondent wishes to change its settlement designation, Respondent and Correspondent need not execute a new Transaction and Service Fee Settlement Authorization Form if a form is already on file with the Correspondent's ARB.

¹⁰ Special transaction settlement authorizations for loans and National Settlement Service transactions are found in Operating Circulars 10 and 12, respectively. A designation executed prior to January 2, 1998, remains in effect until superseded, but is subject to the terms of this Circular.

may nevertheless identify a Correspondent in order to settle some or all of its Debit and Credit Transaction Activity. A Respondent can designate different Correspondents to settle for Financial Services except as prohibited or otherwise restricted by an applicable operating circular.

By executing the Transaction and Service Fee Settlement Authorization Form, the named Correspondent agrees to allow its Master Account to be used to settle certain transactions and service fees for the named Respondent as well as for any other Financial Institution that is currently using (or later agrees to use) the named Respondent as its Correspondent as designated in a Transaction and Service Fee Settlement Authorization Form. The named Correspondent is not required to execute this subsequent Transaction and Service Fee Settlement Authorization Form between its Respondent and the other Financial Institution.

In the event that a receiver is appointed for an insolvent Correspondent or an insolvent Respondent and another Financial Institution (Acquiring Financial Institution) enters into an agreement with a Reserve Bank in which the Acquiring Financial Institution agrees to continue the insolvent Correspondent's or insolvent Respondent's Financial Services pursuant to the applicable operating circulars, then: 1) in the case of an insolvent Respondent, the Correspondent agrees that its Master Account can continue to be used to settle for those Debit and Credit Transactions for the Acquiring Financial Institution that were designated in the Transaction and Service Fee Settlement Authorization Form submitted by the insolvent Respondent to the same extent as if the Acquiring Financial Institution were a party to that Transaction and Service Fee Settlement Authorization Form and, 2) in the case of an insolvent Correspondent, the Respondent agrees that those Debit and Credit Transactions that were designated in the Transaction and Service Fee Settlement Authorization Form to settle in the insolvent Correspondent's Master Account will be settled in the Correspondent's Acquiring Financial Institution's Master Account as if the Acquiring Financial Institution were a party to that Transaction and Service Fee Settlement Authorization Form. These settlement obligations continue until the Correspondent, Respondent, or the Acquiring Financial Institution terminates the relationship pursuant to Section 2.10.

A Correspondent is responsible at all times for understanding and reviewing the Debit and Credit Transaction Activity of Respondents settling to its Master Account. The ARB is not responsible for maintaining a list of Respondents that settle to an Account Holder's Master Account or for notifying a Correspondent if one of its Respondents agrees to act as a Correspondent to another Financial Institution.

2.8 CORRESPONDENT – RESPONDENT PASS-THROUGH RELATIONSHIPS

A pass-through relationship allows a Respondent to maintain its "balance maintained to satisfy the reserve balance requirement," as defined in Regulation D, in the Correspondent's Master Account. A balance in the Correspondent's Master Account represents a liability of the Reserve Bank solely to the Correspondent and is subject to the Correspondent's order, regardless of whether the funds represent balances of another Financial Institution that have been passed through the Correspondent or the Correspondent's own funds.

To establish a pass-through relationship, both the Correspondent and the Respondent must complete a “Pass-Through Agreement” (in the form of Appendix 3). Each executed Pass-Through Agreement is subject to approval by the ARB of the Correspondent. A Reserve Bank may terminate any pass-through relationship in which the Correspondent is deficient in its record keeping or other responsibilities.

2.9 FED FUNDS CHECKS

An Account Holder may draw checks against its Master Account (Fed Funds Check(s)), if the Fed Funds Checks bear the signature of an Authorized Individual. A Reserve Bank is under no obligation to honor a Fed Funds Check if it is not signed by an Authorized Individual or if the Master Account does not contain sufficient funds to cover the amount of the Fed Funds Check in addition to any other obligations the Financial Institution owes to any Reserve Bank. A Reserve Bank may pay a Fed Funds Check drawn on the Master Account and signed by any Authorized Individual, even if the Fed Funds Check directs payment to the order of the drawer or to any other person.

2.10 TERMINATING A MASTER ACCOUNT AGREEMENT, PASS-THROUGH AGREEMENT, SETTLEMENT AUTHORIZATION FORM, OR OTHER AGREEMENT

Any executed and accepted Master Account Agreement (in the form of Appendix 1), Transaction and Service Fee Settlement Authorization (in the form of Appendix 2), Pass-Through Agreement (in the form of Appendix 3), or other agreement executed by an Authorized Individual of a Financial Institution and relating to a Financial Institution’s Master Account (Other Account Agreement) is binding on its successors and assigns, and continues in effect until amended or terminated as provided in this Circular or otherwise provided in the agreement.

An Account Holder may terminate its Master Account only by giving the Reserve Bank not less than five business days prior written notice. The notice must indicate the date upon which the Account Holder desires to close the Account Holder’s Master Account and provide instructions for the transfer of any remaining balance in the Master Account.

A Respondent may terminate a Transaction and Service Fee Settlement Authorization (in the form of Appendix 2) or a Pass-Through Agreement (in the form of Appendix 3) by giving its ARB not less than five business days prior written notice, unless a shorter period of notice is agreed to in writing by its ARB or except as otherwise specifically provided in another Reserve Bank Operating Circular.

A Correspondent may terminate a Transaction and Service Fee Settlement Authorization (in the form of Appendix 2) or a Pass-Through Agreement (in the form of Appendix 3) by giving its ARB and its Respondents not less than one business day prior written notice to the other parties, except as otherwise specifically provided in another Reserve Bank Operating Circular.

A Reserve Bank may terminate a Master Account Agreement (in the form of Appendix 1), Transaction and Service Fee Settlement Authorization (in the form of

Appendix 2), Pass-Through Agreement (in the form of Appendix 3), or any Other Account Agreement at any time by notice to the Financial Institution but will endeavor to give not less than five business days prior notice¹¹. Unless otherwise agreed by a Reserve Bank, termination of a Master Account Agreement results in immediate termination of the Account Holder's Master Account. A Reserve Bank may terminate a Financial Institution's Master Account or access to some or all Financial Services even if the Reserve Bank does not terminate the relevant agreement or authorization form under this section.

Termination of a Financial Institution's agreement or authorization form, Master Account, or access to Financial Services under this section does not affect the Financial Institution's responsibility for liability or obligation incurred by the Financial Institution to a Reserve Bank before or on the effective date of the termination in connection with the Financial Institution's Master Account or access to Financial Services.

2.11 RISK CONTROLS AND CONDITIONS ON SETTLEMENT ARRANGEMENTS, ACCOUNTS AND FINANCIAL SERVICES

Notwithstanding any provision to the contrary in Section 2.10, a Financial Institution may be required by its ARB to maintain at all times settlement arrangements acceptable to its ARB. The ARB may, among other things, set certain conditions or limitations on such Financial Institution's capacity to terminate its Master Account or Correspondent-Respondent relationship under this section.

In addition, the ARB may require a Financial Institution that engages in certain transactions to maintain adequate balances with a Reserve Bank in such amount as the ARB determines, as permitted by the first paragraph of Section 13 of the Federal Reserve Act and policies of the Board of Governors.

A Reserve Bank shall have the right, in its discretion, to transfer funds from an Account Holder's Master Account to a separate account and to hold those funds after a Master Account has been terminated in accordance with Section 2.10 in order to cover potential future claims arising from the Financial Institution's use of Financial Services.

In addition to the right to terminate a Master Account or access to Financial Services under Section 2.10, a Reserve Bank may restrict or limit a Financial Institution's use of its Master Account or access to Financial Services or require that the Financial Institution submit additional information as a condition of its continued use of its Master Account or access to Financial Services.

2.12 MAINTENANCE OF AGREEMENTS AND OTHER RECORDS

An Account Holder must maintain all Master Account agreements and all other Reserve Bank account agreements continuously as official records of the Financial Institution. A copy of the Master Account Agreement, this Circular, any other account agreement, amendments thereto, and a copy of the relevant portions of

¹¹ Reserve Banks generally terminate a pass-through relationship effective on the last day of a reserve maintenance period.

the minutes of the meeting(s) at which the Financial Institution's governing body authorized execution of the account agreement(s), shall at all times be kept together in one place.

3.0 SETTLEMENT

An Account Holder's Master Account is used to settle Debit and Credit Transaction Activity arising from transactions that the Account Holder conducts with or through any Reserve Bank.

An Account Holder may serve as a Correspondent to a Respondent as provided for in Section 2.7.

The Transaction and Service Fee Settlement Authorization Form must be used to designate any separate settlement arrangements for particular payment services. A Respondent that maintains its "balance maintained to satisfy the reserve balance requirement," as defined in Regulation D, with a Correspondent in a pass-through relationship, but desires to settle directly for some or all Reserve Bank services may, with the approval of its ARB, open its own Master Account for that purpose.

A Respondent remains responsible for settling its Debit and Credit Transaction Activity if settlement through the Master Account of its Correspondent fails for any reason. Where a Respondent directs settlement of Debit and Credit Transaction Activity to a Correspondent's Master Account, a Reserve Bank's credit to the Correspondent's Master Account or to another account designated by the Correspondent constitutes final settlement to the Respondent. A Reserve Bank may also debit or credit a Master Account as provided by regulation, operating circular, agreement or applicable law.

4.0 STATEMENTS AND ACCOUNTING INFORMATION SERVICES

4.1 STATEMENT OF ACCOUNT

An ARB provides a daily Statement of Account to each Account Holder. The Account Holder is responsible for verifying the information on each daily Statement of Account and must promptly notify its ARB of any error in its Statement of Account. If an Account Holder fails to provide written notice to its ARB of an error in its Statement of Account within 30 calendar days of the date of the entry, it is deemed to have approved the entry. A Reserve Bank will investigate any notice of error and determine whether an error actually occurred.

4.2 STATEMENT OF AND SETTLEMENT FOR SERVICE CHARGES

A monthly Statement of Service Charges is provided to each Account Holder by the seventh business day after the end of each month. Service fees are computed on a calendar month basis, and are charged on the 15th day of the following month (or the next business day), appearing on the daily Statement of Account as "FRB Service Charges". Charges are debited from an Account Holder's Master Account unless the Financial Institution designates a Correspondent for settlement of such charges by executing a Transaction and Service Fee Settlement Authorization

Form (in the form of Appendix 2).¹² An ARB reserves the right to accelerate the debiting of FRB Service Charges without notice to the Account Holder.

An Account Holder is responsible for verifying the information on each Statement of Service Charges and must promptly notify its ARB in writing of any error on the monthly statement. If the Account Holder fails to provide written notice to its ARB of an error in the monthly Statement of Service Charges within two calendar months from the day the Statement of Service Charges is made available to the Account Holder, the Account Holder is deemed to have approved the service charges listed in the Statement of Service Charges.

4.3 ACCOUNTING INFORMATION SERVICES

An eligible Financial Institution may request certain intra-day and end-of-day accounting information services as well as other account or transaction inquiry and report generation services as offered by the Reserve Banks from time to time such as the FedTransaction Analyzer[®] Service described in Appendix 4 (together Accounting Information Services). Operating Circular 5, “Electronic Access,” applies to Accounting Information Services accessed by electronic connection. Charges set forth in Reserve Bank fee schedules may apply to certain Accounting Information Services. Accounting information provided by a Reserve Bank may not be timely as a result of Reserve Bank processing or transmission delays.

If a Financial Institution or its agent determines that it has received information through Accounting Information Services that is not intended for that institution, the Financial Institution should immediately notify its ARB.

5.0 OVERDRAFTS

5.1 OVERDRAFT POLICY

An overdraft occurs when a Master Account has a negative balance at any time during the business day (daylight overdraft) or at the end of the business day (overnight overdraft). An Account Holder does not have a right to incur an overnight overdraft in its account. An Account Holder may incur daylight overdrafts in its account only to the extent permitted by its ARB.

5.2 COLLECTION OF OVERDRAFTS

An overdraft is due and payable immediately, without the need for a demand by the Reserve Bank, at the earliest of the following times:

- at the end of the funds transfer business day for purposes of Fedwire[®] transactions (see Operating Circular 6, “Funds Transfers Through the Fedwire[®] Funds Service”);
- at the time the Reserve Bank, in its sole discretion, deems itself insecure and gives notice to the Account Holder; or

¹² See Section 3.0

- at the time the Account Holder suspends payments or is closed.

The Account Holder is responsible for having in its account, at the time the overdraft is due and payable, a balance of actually and finally collected funds sufficient to cover the aggregate amount of all its obligations to the Reserve Bank.

5.3 SECURITY INTEREST

To secure any overdraft in the Master Account, as well as any other obligation of the Account Holder, whether now existing or arising in the future, owed to any Reserve Bank, the Account Holder transfers and assigns to each Reserve Bank maintaining a Master Account for the Account Holder and grants to such Reserve Bank for itself and, to the extent permitted by law, as agent for each other Reserve Bank to which an obligation is or becomes owing, a continuing security interest in and lien on all the Account Holder's right, title, and interest in property, whether now owned or hereafter acquired, in the possession or control of, or maintained with, any Reserve Bank, including but not limited to any account or deposit of the Account Holder that is maintained with any Reserve Bank, items in the process of collection and their proceeds, and any investment property (including securities, security entitlements, and securities accounts), but excluding any investment property in any Unrestricted Securities Account (as such term is defined in the Reserve Banks' Operating Circular 7) that the Account Holder may not encumber under applicable law. The security interest granted by the Account Holder in this Section 5.3 is in addition to, and is to be construed to be consistent with, any other security interest granted to any Reserve Bank by the Account Holder under regulation or agreement.

Upon the occurrence of, and at any time during the continuance of, an Event of Default, any Reserve Bank may take any action authorized by law to recover the amount of an overdraft or other obligation. This may include the exercise of setoff without demand or notice the realization on any available collateral, and any rights such Reserve Bank may have as a creditor under applicable law.

6.0 RESERVE BANK RESPONSE PROGRAM FOR UNAUTHORIZED ACCESS TO SENSITIVE CONSUMER INFORMATION OBTAINED IN THE COURSE OF PROVIDING FINANCIAL SERVICES

6.1 THE RESERVE BANK'S POSSESSION AND USE OF CONSUMER INFORMATION

The Reserve Banks do not hold accounts for individuals and do not provide Reserve Bank services to individuals. In the course of providing Financial Services to Financial Institutions and their authorized users of Financial Services, the Reserve Banks obtain, store, and transmit information that includes Sensitive Consumer Information. Under the general supervision of the Board of Governors, the Reserve Banks have implemented information security measures designed to protect the security and confidentiality of Sensitive Consumer Information, to protect against any anticipated threats or hazards to the security or integrity of such information, and to protect against unauthorized access to or use or reuse of

such information that could result in substantial harm or inconvenience to a Consumer.

As part of their information security programs, the Reserve Banks have created a risk-based program to address incidents of unauthorized access to Sensitive Consumer Information that takes into account the size and complexity of the Reserve Banks and the nature and scope of the Reserve Banks' activities. This Section 6 is an integral part of the Reserve Banks' response program.

6.2 INCIDENT RESPONSE BY THE RESERVE BANK

a) Suspected Incident:

If a Reserve Bank has reason to believe that an Incident might have occurred, the Reserve Bank will promptly investigate to determine whether in the judgment of the Reserve Bank an Incident has in fact occurred.

b) Confirmed Incident:

If the Reserve Bank determines that an Incident has occurred, the Reserve Bank will:

- (i) notify the Board of Governors as soon as possible,¹³
- (ii) assess the nature and scope of the Incident to identify what Sensitive Consumer Information has been or might be misused,
- (iii) take appropriate steps to contain and control the Incident while preserving records and other evidence, and
- (iv) follow the notification procedures set forth in Section 6.2(c) unless requested by an appropriate law enforcement agency to delay providing such notice.

c) Reserve Bank Notification to Financial Institution of Confirmed Incident

If the Reserve Bank determines that an Incident has occurred, the Reserve Bank will take the following actions for the purpose of facilitating notice to Consumers whose Sensitive Consumer Information has been or might be misused as a result of the Incident.

If the Incident involves Sensitive Consumer Information identified with a Consumer(s) of a particular Financial Institution or a discrete group of Financial Institutions, the Reserve Bank will:

- (i) provide notice of the Incident to each of the identified Financial Institutions which shall include a description of the Incident in general terms, the type of Sensitive Consumer Information that was misused or the subject of possible misuse and a general description of what the Reserve Bank has done to protect the Sensitive Consumer Information from further unauthorized access;

¹³ If the Reserve Bank determines it is appropriate to do so, the Reserve Bank will also notify law enforcement authorities.

- (ii) endeavor to provide each affected Financial Institution with the information the Financial Institution needs to identify its Consumers whose Sensitive Consumer Information might have been misused as a result of the Incident but only to the extent the Reserve Bank is reasonably able to identify, retrieve, and deliver such information; and
- (iii) cooperate in the Financial Institution's efforts to identify and provide notice to affected Consumers of the Financial Institution.

If the Reserve Bank is unable to associate the Incident with Sensitive Consumer Information related to the Consumers of a particular Financial Institution or discrete group of Financial Institutions, the Reserve Bank may take whatever actions it deems appropriate to provide notice of the Incident to affected Consumers, including providing notice to every Financial Institution.

A Reserve Bank may take any actions in addition to those set forth in this Section 6.2(c) that the Reserve Bank deems appropriate.

- d) Obligations of a Financial Institution that Receives Notice of an Incident from a Reserve Bank

A Financial Institution that receives notice of an Incident from a Reserve Bank under Section 6.2(c)(i) must notify its affected Consumers unless the Financial Institution, based on information not available to the Reserve Bank, reasonably determines that the Incident does not create a reasonable possibility of misuse of Sensitive Consumer Information. The Financial Institution will provide the Reserve Bank with any requested information relating to (i) what actions the Financial Institution has taken or plans to take in order to notify its affected Consumers pursuant to this subsection, and (ii) the basis for any determination by the Financial Institution that the Incident does not create a reasonable possibility of misuse Sensitive Consumer Information.

The notice from the Financial Institution to its Consumers must be made in a manner reasonably calculated to provide actual notice of the Incident to affected Consumers and must contain an accurate description of the Incident, the type of Sensitive Consumer Information at issue and the steps taken by the Reserve Bank to protect the Sensitive Consumer Information from further misuse based on the information provided by the Reserve Bank and include any other information that the Financial Institution provides when its own Sensitive Consumer Information has been compromised.

6.3 RECEIPT OF UNINTENDED SENSITIVE CONSUMER INFORMATION BY A FINANCIAL INSTITUTION

If the Financial Institution or its agent receives Sensitive Consumer Information that is not intended for receipt by that Financial Institution, the Financial Institution must immediately notify the Financial Institution's ARB.

6.4 COSTS

The Reserve Bank that triggers a Financial Institution's obligations under Section 6.2(d) will reimburse such Financial Institution for an appropriate allocation of the Financial Institution's reasonable costs of providing notice to its Consumers under that Section 6.2(d). The Reserve Bank and the Financial Institution shall negotiate in good faith to determine such allocation.

7.0 GENERAL

7.1 DUTY OF CARE

Unless otherwise specifically provided in another Reserve Bank operating circular, a Reserve Bank shall be liable only to an Account Holder and only for actual damages incurred by the Account Holder and proximately caused by the Reserve Bank's lack of good faith and failure to exercise ordinary care. A Reserve Bank is not liable for lost profits, claims by third parties, or consequential or incidental damages, even if the Reserve Bank has been informed of the possibility of such damages.

7.2 RELIANCE ON AUTHORIZATIONS

A Reserve Bank may rely on instructions and authorizations purporting to be issued by an Authorized Individual of an Account Holder or Respondent, whether by written or electronic means, that the Reserve Bank reasonably believes to be authorized by the Account Holder or Respondent and may continue to rely on such instructions and authorizations until they are revoked by the Account Holder or Respondent. For the avoidance of doubt, to the extent any provision in Article 4A requires agreements, other documents, or signatures to be in writing, a Reserve Bank may accept such documents and signatures in electronic form.

By executing or submitting a form with prefilled information, the Financial Institution represents and warrants that it has reviewed such information to confirm it is accurate as of the date an Authorized Individual signs the form, if applicable, and the Financial Institution submits the form. The Financial Institution agrees not to execute or submit a document which contains inaccurate information.

The Reserve Banks may use a third-party verification service to verify the identity of any individual authorized to act on behalf of a Financial Institution. If applicable, the Financial Institution shall endeavor to ensure its personnel cooperate with and provide current and accurate information to such third-party verification service. The Reserve Banks may rely on identity verification received through such third-party verification service.

7.3 DISCLOSURE OF INFORMATION

All the information, including but not limited to all transaction record and related information, obtained by any Reserve Bank while providing Financial Services under any operating circular may be used or disclosed by any Reserve Bank, in its sole discretion, for monetary policy, research, supervision, regulation, financial services or any other purpose related to a Reserve Bank's authority. Institutions using Financial Services hereby consent to such use and/or disclosure to the full extent permitted by applicable law.

7.4 FEEDBACK

If a Financial Institution provides a Reserve Bank with feedback, including but not limited to ideas, comments or suggestions, relating to the Financial Services, all intellectual property rights in such feedback and anything created as a result of that feedback (including new material, enhancements, modifications or derivative works), are owned by the Reserve Bank.

7.5 GOVERNING LAW AND ACTIONS

This Circular shall be governed by Federal law, and, to the extent not inconsistent with Federal law, by the laws of the State of the head office of the applicable Reserve Bank. Any action against a Reserve Bank for any act or omission relating to an account relationship or transaction contemplated by this Circular must be brought within one calendar year from the date of the transaction in the United States District Court where the head office of the applicable Reserve Bank is located. Notwithstanding the foregoing, if the action relates to activity contemplated by another operating circular, such action must be brought within the time and in the United States District Court specified in that operating circular, if any.

7.6 RIGHT TO AMEND

The Reserve Banks reserve the right to amend this Circular and its Appendices at any time without prior notice.

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