



**Federal Reserve Banks
Operating Circular 1**

ACCOUNT RELATIONSHIPS

Effective April 1, 2007

**FEDERAL RESERVE BANKS
OPERATING CIRCULAR NO.1
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1.0 INTRODUCTION

1.1 SCOPE

This operating circular and its appendices (“Circular”) set forth the terms for opening, maintaining, and terminating a master account with a Federal Reserve Bank (“Reserve Bank”). It also contains general provisions regarding Reserve Bank services applicable to an institution whether or not it maintains an account at a Reserve Bank. Each Reserve Bank has issued an operating circular identical to this one.

An account is subject to Federal Reserve regulations and policies, such as those on payments system risk, reserve balances, and clearing balances, as they may be revised from time to time. An institution also should be familiar with Operating Circular 10 “Lending” and other Reserve Bank operating circulars governing specific services. These circulars may be found on the Internet at <http://www.frbservices.org>, and copies may also be obtained from each Reserve Bank.

1.2 DEFINITIONS

a) **Master Account** or **Account** means the record of financial rights and obligations of an account holder and the Reserve Bank with respect to each other, where opening, intraday, and closing balances are determined.

b) **Subaccount** means an information record of a subset of transactions that affect the master account. A subaccount does not reflect balances but does contain totals of debit and credit activity.

c) **Correspondent** means an institution that has authorized a Reserve Bank to make debits and credits to its master account on behalf of one or more other (respondent) institutions. The term also includes an institution that maintains reserve balances in its master account on behalf of one or more other (respondent) institutions.

d) **Respondent** means an institution that settles the debits and credits for some or all of its Reserve Bank transactions (other than Custodial Inventory Program transactions, Fedwire¹ transactions and Fed funds checks) in the master account of another (correspondent) institution. The term also includes a nonmember institution that maintains its required reserve balances in the master account of another (correspondent) institution.

2.0 ACCOUNT RELATIONSHIPS

2.1 MASTER ACCOUNT

Except as provided below, a separately chartered institution may maintain a single master account with only the Reserve Bank in whose District the institution

¹ Fedwire is a registered service mark of the Federal Reserve Banks.

is located (“Administrative Reserve Bank” or “ARB”; see Section 2.2). The master account may be used to maintain required reserve balances and other funds or securities balances. Debits and credits arising from transactions conducted by the institution on its own behalf and/or on behalf of others with or through any Reserve Bank, regardless of location, are posted to the master account.

An 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 a nonsurviving institution with which it has merged or consolidated. The Administrative Reserve Bank may restrict the use of such an account as it deems necessary or appropriate, and may require that the institution execute a security agreement covering multiple master accounts;
- a U.S. branch or agency of a foreign bank, an Edge 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 Administrative Reserve Bank may, in its discretion, allow multiple master accounts in other situations.

If an institution is allowed to have multiple master accounts, any reference in this Circular to “master account” or “account” should be read as “master accounts” or “accounts.”

2.2 ELIGIBLE ACCOUNT HOLDERS

An institution may apply to open a master account with a Reserve Bank if the institution is located in the Reserve Bank’s District and 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). (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);
- a U.S. branch or agency of a foreign bank, as defined in Section 211.21(b) or (d) of Regulation K, 12 CFR § 211.21(b) or (d);
- an Edge or agreement corporation, as defined in Section 25A or 25 of the Federal Reserve Act, 12 U.S.C. §§ 611 *et seq.*, or §§ 601 *et seq.*, or
- any other entity authorized to apply to open a master account.

An institution is considered to be 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 it has been notified that the

Board of Governors of the Federal Reserve System has determined otherwise (see Section 204.3(b)(2)(ii) of Regulation D).

2.3 ESTABLISHING AN ACCOUNT

To establish a master account with a Reserve Bank, an institution must execute a Master Account Agreement (Appendix 1). By opening or maintaining a master account, an institution agrees to be bound by all the provisions, as amended from time to time, of this Circular and of all other Reserve Bank operating circulars that cover services that it obtains from any Reserve Bank. Each master account is subject to Reserve Bank approval.

A foreign banking institution must execute the Foreign Banking Institution Account Agreement and exhibits instead of the Master Account Agreement. The Foreign Banking Institution Account Agreement is available on request.

2.4 SUBACCOUNTS

An institution may establish one or more subaccounts to accommodate its specific informational needs. To establish a subaccount, the Subaccount Designation (Appendix 2) must be completed. If a new routing number (also known as an ABA number) is needed for a subaccount, refer to Section 2.7.

2.5 PASS-THROUGH RELATIONSHIPS

A pass-through relationship allows a nonmember respondent to hold its required reserve balances with another (correspondent) institution that maintains a master account with a Reserve Bank. A balance in the correspondent's master account is owed to the correspondent and is subject to its sole order.

To establish a pass-through relationship, both the correspondent and the respondent must complete the Pass-Through Agreement (Appendix 3). Each pass-through agreement is subject to Reserve Bank approval. A Reserve Bank may terminate any pass-through relationship in which the correspondent is deficient in its record keeping or other responsibilities. See Section 204.3(i) of Regulation D for pass-through rules.

For a respondent's options in settling for Reserve Bank services, see Section 3.

2.6 AUTHORIZED SIGNATURES

If an institution intends to draw checks against its master account (Fed funds checks), it must provide the Reserve Bank with a signature card (Appendix 4), which bears the signature of each individual who is authorized to sign such a check. A Reserve Bank is under no obligation to honor a check if it is not signed by an individual whose signature is on the signature card or if the account does not contain sufficient actually and finally collected funds to cover the debit and any other obligations the institution owes to any Reserve Bank. A Reserve Bank may pay a check drawn on the master account and signed by any individual whose signature is listed on the signature card, even if the check directs payment to the order of that person or to any other employee or agent of the account

holder, and even if the proceeds may be used for the personal benefits of any such person. See also Section 3.

2.7 ACCOUNT NUMBERS

An institution's nine-digit routing number (also known as an ABA number) is used to identify its master account and to settle transactions processed at any Reserve Bank. Routing numbers are also used to identify respondents and subaccounts. A Reserve Bank may, in its discretion, issue a customer identification number if an institution cannot obtain a routing number.

2.8 TERMINATING AN ACCOUNT OR RELATIONSHIP

Any Master Account Agreement, Pass-Through Agreement, Transaction and Service Fee Settlement Authorization, or other agreement relating to an account and executed by an institution is binding on its successors and assigns, and continues in effect until amended or terminated as indicated below, unless otherwise provided in the agreement. An institution may terminate its master account by giving the Reserve Bank not less than five business days prior notice. The notice must indicate the closing date and provide instructions for the transfer of any remaining balance in the account. A Reserve Bank may terminate a Master Account Agreement, Pass-Through Agreement, or Transaction and Service Fee Settlement Authorization at any time by notice to the account holder and any other party, but will endeavor to give not less than five business days prior notice. Termination of a pass-through relationship usually is effective on the last day of a reserve maintenance period.

A respondent may terminate a Pass-Through Agreement or a Transaction and Service Fee Settlement Authorization by giving the Reserve Bank not less than five business days prior notice, unless a shorter period of notice is agreed to by the Reserve Bank.

A correspondent may terminate a Pass-Through Agreement or a Transaction and Service Fee Settlement Authorization by giving not less than one business day prior notice to the other parties, except as otherwise specifically provided as to check and ACH services in Reserve Bank operating circulars 3 and 4.

Termination of an agreement or authorization does not affect liability arising from transactions received before or on the effective date of the termination.

2.9 MAINTENANCE OF ACCOUNT AGREEMENT

An institution must maintain all account agreements continuously as official records of the institution. A copy of the Master Account Agreement, this Circular, any other account agreement, amendments thereto, and a copy of the relevant portions of the minutes of the meeting(s) at which the institution's governing body authorized execution of the account agreement(s), shall at all times be kept together in one place.

3.0 SETTLEMENT

3.1 SETTLEMENT

An institution's master account may be used to settle debits and credits arising from transactions it conducts with or through any Reserve Bank by executing a Master Account Agreement. Alternatively, an institution and its correspondent may provide the institution's Administrative Reserve Bank with an executed Appendix 5 instructing the ARB(s) of the institution and the correspondent to settle some or all of the institution's transactions in the correspondent's master account. However, Custodial Inventory Program transactions, Fed funds checks and Fedwire® funds and securities transactions must settle in an institution's own master account. Also, special transaction settlement authorizations for loans and net settlement transactions are found in operating circulars 10 and 12, respectively. A separate Transaction and Service Fee Settlement Authorization is necessary for each correspondent/respondent relationship.² Transactions recorded in a respondent's subaccount may not settle directly in a correspondent's master account.

The Transaction and Service Fee Settlement Authorization (Appendix 5) must be used to designate any separate settlement arrangements for particular transaction types. A respondent that maintains reserve balances 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 for its transactions and associated fees if for any reason settlement through the master account of the institution or its correspondent fails. 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

A Reserve Bank sends a daily Statement of Account to each institution that maintains a master account on the Reserve Bank's books. The account holder is responsible for verifying the information on each daily statement and promptly notifying the Reserve Bank of any error in the statement. If an institution fails to provide notice of an error within 30 calendar days of the date of the entry, it is

² An institution (and correspondent) need not execute Appendix 5 if it has already executed a settlement designation, unless it wishes to change that designation in some way. A designation executed prior to January 2, 1998, remains in effect until superseded, but is subject to the terms of this Circular.

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 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 institution's master account unless it and its correspondent designate the correspondent's master account by executing a Transaction and Service Fee Settlement Authorization (Appendix 5).³ A Reserve Bank may accelerate the debiting of service charges.

An institution should notify the Reserve Bank as soon as possible if the institution believes there is an error on its Statement of Service Charges. If the institution fails to do so within two calendar months of the day it receives the statement, it is deemed to have approved the service charge.

4.3 ACCOUNTING INFORMATION SERVICES

An institution may request certain accounting information services, such as on-line and multiple deliveries of statements and reports, and reports of respondent and subaccount activity. Operating Circular 5, "Electronic Access", applies to services accessed by electronic connection. Charges set forth in Reserve Bank fee schedules may apply to accounting information services. Accounting information provided by a Reserve Bank may not be timely as a result of Reserve Bank processing or transmission delays.

5.0 OVERDRAFTS

5.1 OVERDRAFT POLICY

An overdraft occurs when a master account has a negative balance at any time during the Reserve Bank's business day (daylight overdraft) or at the end of the Reserve Bank's 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 Administrative Reserve Bank.

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® (see Operating Circular 6, "Funds Transfers Through Fedwire");

³ See footnote 2.

- at the time the Reserve Bank, in its sole discretion, deems itself insecure and gives notice to the account holder; or
- 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, now existing or arising in the future, of the account holder to any Reserve Bank, the account holder grants to the Reserve Bank 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 the account holder's deposit account maintained with any Reserve Bank, items in the process of collection and their proceeds, and any investment property (including securities, security entitlements, and security accounts), but excluding any investment property in any Unrestricted Securities Account (as *such term is defined in the Reserve Banks' Operating Circular 7*) maintained at any Reserve Bank that the account holder may not encumber under applicable law. This security interest is in addition to, and shall be construed to be consistent with, any other security interest granted to the Reserve Bank by the account holder under regulation or agreement.

The Reserve Bank may take any action authorized by law to recover the amount of an overdraft that is due and payable, including, but not limited to, the exercise of setoff without demand or notice and even if the obligations are contingent or unmatured, the realization on any available collateral, and the exercise of any rights the Reserve Bank may have as a creditor under applicable law.

6.0 FEDERAL 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 individual persons and do not provide Reserve Bank services to individual persons. In the course of providing Financial Services to Depository Institutions and other authorized users of Reserve Bank services, the Reserve Banks obtain, store, and transmit information that includes Sensitive Consumer Information.¹ 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 nonpublic personal information obtained by them, to protect against any

¹ The terms "Financial Services", "Depository Institutions", and "Sensitive Consumer Information" are defined in Section 6.2 of this Operating Circular.

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 an institution's customer.

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 DEFINITIONS FOR PURPOSES OF SECTION 6

- a) **Consumer** means a natural person who maintains an account with or obtains financial services from a Depository Institution.
- b) **Depository Institution** means a U.S. financial institution, including a U.S. branch or agency of a foreign financial institution, that uses Reserve Bank Financial Services or is otherwise bound by a Reserve Bank operating circular.
- c) **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.
- d) **Financial Services** means any of the financial services provided by a Reserve Bank pursuant to an operating circular except those services that are provided by the Reserve Banks as fiscal agent for the Treasury. The term does not include any activities governed by Operating Circular 10, entitled "Lending".
- e) **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.

6.3 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 becomes aware that an Incident has occurred, the Reserve Bank will:

- (i) notify the Board of Governors as soon as possible. If it is appropriate to do so, the Reserve Bank will also notify law enforcement authorities,
- (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) after notifying the Board of Governors, follow the notification procedures set forth below unless requested by an appropriate law enforcement agency to delay providing such notice.

c) Reserve Bank Notification to Depository 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 customer or customers of a particular Depository Institution or a discrete group of Depository Institutions, the Reserve Bank will:

- (i) provide notice of the Incident to each of the identified Depository 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 as well as a general description of what the Reserve Bank has done to protect the Sensitive Consumer Information from further unauthorized access;
- (ii) provide each affected Depository Institution with whatever information the Reserve Bank is reasonably able to identify, retrieve, and deliver, which the depository institution needs to identify its customers whose Sensitive Consumer Information might have been misused as a result of the Incident; and
- (iii) cooperate in the Depository Institution's efforts to identify and provide notice to affected consumer customers of the Depository Institution.

If the Reserve Bank is unable to associate the Incident with Sensitive Consumer Information related to the customers of a particular Depository Institution or discrete group of Depository Institutions, the Reserve Bank may take whatever actions it deems appropriate to provide notice of the Incident to affected consumers, including but not limited to providing notice to every Depository Institution.

A Reserve Bank may take any actions in addition to those set forth in this subsection 6.3(c) that the Reserve Bank deems appropriate.

d) Obligations of a Depository Institution that Receive Notice of an Incident from the Reserve Bank

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

The notice from the Depository Institution to its customers must be made in a manner reasonably calculated to provide actual notice of the Incident to affected customers of the Depository Institution 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 data from further misuse based on the information provided by the Reserve Bank and include any other information that the Depository Institution provides when its own Sensitive Consumer Information has been compromised.

Whenever the Reserve Bank intends to trigger the obligations in this Section 6.3(d), the notice provided by the Reserve Bank will expressly notify the Depository Institution of this intention. Any other communication from a Reserve Bank to a Depository Institution relating to an Incident, a suspected Incident, or any other data security issue does not trigger the obligations in this section.

6.4 COSTS

The Reserve Bank will reimburse a Depository Institution for an appropriate allocation of the Depository Institution's reasonable costs of providing consumer notice pursuant to section 6.3(d) of this circular. The parties agree to consult in good faith to determine an "appropriate 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 to an institution only for actual damages incurred by the institution and proximately caused by the Reserve Bank's 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 officer of an institution, whether by written or electronic means, that the Reserve Bank reasonably believes to be authorized by the institution, and

may continue to rely on such instructions and authorizations until they are revoked by the institution.

7.3 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 in which the Reserve Bank's head office is located. Any action against a Reserve Bank for any act or omission relating to an account relationship or transaction must be brought within one calendar year from the date of the transaction in the United States District Court and Division where the head office of the Reserve Bank is located, and shall not claim trial by jury.

7.4 RIGHT TO AMEND

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