

September 4, 2024

***Re: Docket No. OP-1831; Expansion of Fedwire® Funds Service and National Settlement Service Operating Hours***

The Payments Risk Committee (“PRC”) appreciates the opportunity to provide comments to the Board of Governors of the Federal Reserve System (“Board”) in response to its request for comment (“FR Notice”) on a proposal to expand the operating days of the Federal Reserve Banks’ two large-value payments services, the Fedwire Funds Service and the National Settlement Service (NSS), to include weekends and holidays.

The PRC is a private-sector organization sponsored by the Federal Reserve Bank of New York. The PRC’s membership, drawn from financial firms, meets at regular intervals to identify and analyze risk issues in payments, clearing, and settlement (PCS) of financial transactions.<sup>1</sup> The primary goal of the PRC is to foster enhancements to the safety and efficiency of financial market infrastructure, which includes identifying opportunities to strengthen the clearing and settlement of financial transactions, and to inform the Federal Reserve about developments, conditions, and practices in PCS activities.

The views expressed in this document are the views of the PRC only. Nothing herein reflects official views of the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System, or any other entity within the Federal Reserve System.

We appreciate the opportunity to comment on the important issues addressed in this FR Notice. The PRC would welcome an opportunity to work with the Board to further develop the recommendations presented and to advance the interests of the payments industry in exploring the potential benefits and challenges of extended operating hours for the Fedwire Funds Service. If you have any questions, or wish to discuss this letter, please contact the PRC Secretariat ([PaymentsRisk.Committee@ny.frb.org](mailto:PaymentsRisk.Committee@ny.frb.org)).

Yours sincerely,

Michael Sklow

Chair, Payments Risk Committee

<sup>1</sup> The current members of the PRC represent Bank of America N.A., The Bank of New York Mellon, Citibank N.A., Deutsche Bank AG, Goldman Sachs, HSBC Bank USA, JPMorgan Chase, Morgan Stanley, MUFG Bank, State Street Bank and Trust Company, UBS AG, US Bank, and Wells Fargo. More information on the PRC and its members is available at: <http://www.newyorkfed.org/prc>.

## Foreword

The ability to execute and settle payments during extended operating hours (up to 24x7x365) is both a significant private sector objective and an important global public policy goal. Over the last few years, the pace of transformation of payment systems towards a 24x7 operating model accelerated significantly. The commitment of central banks and governments demonstrates that enhancements in domestic and cross-border payments execution remains at the center of the financial sector's agenda to increase competitiveness, speed of execution, transparency and cost effectiveness while maintaining safety and soundness.

This payment system transformation has been driven by numerous strategic changes, including but not limited to:

- 1) Entrance of fintech companies.
- 2) Evolving customer expectations: "always-on" access, speed of payments execution, transparency, and cost effectiveness.
- 3) Growth of alternative payment channels.
- 4) Technology enhancements that enable the financial ecosystem to execute the aforementioned transformation.

Central banks around the world have taken notice and are taking action to enhance infrastructure and help address the needs of the market. This transformation does not seem to be optional; changes are gaining momentum, and practical projects are driving changes to both wholesale real time gross settlement systems (RTGS) and low value (retail) payment systems.

The potential move towards extended operating hours for the Fedwire Funds Service is an important change that responds to developing demand and the behavior of US and global customers (especially financial institutions). Delivery of extended operating hours strives to support efficient payments execution and strengthen the role of the US Dollar (USD) as the dominant global settlement currency. Nonetheless, there are a range of views to consider on the potential benefits and challenges of such a significant effort that may impact institutions of all sizes in different ways.

The availability of the Fedwire Funds Service during extended operating hours may benefit a range of activities performed by US and global financial institutions. Such a change has the potential to enable more efficient payments processing, additional settlement cycles in ancillary payment systems (such as ACH or card networks), and in the future, can serve as the bedrock for FX, debt, and equity markets to operate with expanded hours. Further, such change could provide the foundation for additional innovation across the economy as financial institutions, fintechs, other payment systems, and broader market participants leverage the benefits of extended operating hours of the Fedwire Funds Service.

At the same time, it is important to carefully consider the potential challenges, risks, and costs of expanded operating hours as institutions of different sizes, business models, and with different use cases face unique considerations. The introduction of extended operating hours presents a major change for the industry that requires a material evolution of the incumbent operating model, investment into technology to accommodate continuous operations, and potential changes in the processes that support liquidity management. With Fedwire Funds available 22x7 or potentially up to 24x7, system down-time would be significantly reduced, and the processes associated with the implementation of technology enhancements would need to be enhanced to accommodate a longer operating model. Reduced downtime would also potentially create risks in the ability to address adverse

events or potential Fedwire Funds outages. It will be essential to review and define enhanced resiliency policies that can adequately respond to a new operating model.

There has been significant progress achieved in the delivery of the low value domestic 24x7x365 FedNow Service, which will greatly benefit US financial institutions and customers. However, as of September 2024, the FedNow Service cannot be leveraged by non-US financial institutions and customers and is limited to domestic fund flows. The introduction of extended operating hours for the Fedwire Funds Service goes beyond the benefits delivered by FedNow and would deliver the next strategic milestone towards 24x7x365 USD payments.

#### Focus of the PRC comments

The PRC has reviewed the Board's proposal and assembled responses to support the process of evaluating the proposed Fedwire Funds Service extended operating hours. This response does not provide comments regarding NSS.

The comments presented in this letter follow considerations highlighted in the [2021 Fedwire Expanded Hours White Paper](#).

#### **PRC Responses**

1. What are the primary benefits to the banking industry, financial markets, and broader economy from an expansion to 22x7x365 Fedwire Funds Service and NSS operating hours? What are the primary benefits to your institution?

The primary benefits to the industry include the following:

- Enablement of international trade in USD during weekends and US holidays.
- Enablement of financial institutions to support wholesale payments processing during weekends on behalf of corporate customers.
- Accelerated payments processing for countries located in the eastern hemisphere and improvement in overall client experience.
- Strengthening of the USD position relative to other currencies that are implementing the extended operating hours operating model.
- Improved competitiveness of international financial institutions, especially the incumbent service providers competing with non-banking financial institutions.
- Increase in payments transparency and processing speed strongly advocated by the G20 and the BIS in the cross-border payments program roadmap and the final report on [Extending and aligning payment system operating hours for cross-border payments](#).

2. What will be the primary sources of demand for expanded hours for the Fedwire Funds Service and NSS, from 22x5 to 22x7x365? What types of transactions or institutions are most likely to generate demand for the ability to make payments during weekend hours? What additional use cases could be satisfied with the expansion to full 24x7x365 operating hours? Would they represent sources of new and additional volume that could flow over the Fedwire Funds Service, a shift of existing volume over the service, or both?
  - Potential demand to process transactions during US holidays may be applicable to globally operating financial institutions, US financial institutions, and multinational corporates.

- Banks in the Middle East and other parts of the world operating Sunday-Thursday will be able to, at a minimum, process regional transactions expressed in USD and settled between banks operating in the region.
  - Treasurers of corporate customers are continuously looking to effectively manage liquidity. Extended operating hours of the Fedwire Funds Service should enable more effective liquidity management.
  - Availability of the Fedwire Funds Service during the extended operating hours should decrease the need to prefund transactions and drive “just in time” funds delivery.
  - *In the short-term*: some payment flows currently processed Monday-Friday (and ex-US holidays) may likely migrate to the extended operating hours. This shift is not expected to result in material payment volume increases across the industry.
  - *Medium-term*: With the implementation of a longer operating model and enhanced availability, the industry should observe a slowdown in the erosion of USD clearing volumes that were recently captured by alternative payment methods and alternative currencies. The need for immediate payments processing may be satisfied by 22x7x365 processing.
  - Together with the increase in competitive advantage, volumes attributed to the Fedwire Funds Service may gradually increase.
  - A move from 22x7x365 to 24x7x365 creates relatively small incremental changes in the context of processing hours coverage. The inclusion of an additional two hours of processing may not attract incremental volume but may increase the speed of processing of the existing payments volume. At the same time, the migration to 24x7x365 may create material challenges for the industry associated with little to no downtime and operational and technology changes required to migrate from 22x7 to 24x7 operations.
3. How might expanded operating hours of the Fedwire Funds Service and NSS support private-sector innovation?
- Indirectly, expanded operating hours is expected to support the needs of the treasury functions of globally operating corporate customers. Removal of pre-existing limitations should be a catalyst in developing enhancements in treasury management.
  - New use cases may surface (e.g., commodities trading with settlement on US holidays).
4. How does the existence of the FedNow Service affect your views of the benefits of expanded hours for the Fedwire Funds Service and NSS? How do you anticipate using these services in the future?

FedNow is a valuable service, and the service’s capabilities address a specific use case that differs from that of Fedwire Funds. Therefore, exploring Fedwire Funds’ expanded hours remains beneficial. The FedNow service is focused on US-US customer flows with a \$500,000 (five hundred thousand) value limit with and instant execution of transactions. Even if new features were added to FedNow, usage of FedNow would differ from that of Fedwire Funds. Additionally, it is important to consider how additional features could impact the effectiveness of the FedNow service. For instance, the introduction of international flows to FedNow would change the nature of the system and require additional processing steps that are not applicable today (e.g. sanctions screening). This change would potentially impact the effectiveness of instant-settlement as this adds a layer of complexity for participants and for payment flows. Even with potentially added features in the future, FedNow serves a different use case than

Fedwire Funds and should not be expected to accommodate the 24x7 processing demand associated with wholesale payments.

- The Fedwire Funds Service offers the following:
  - Transaction processing that enables international and US-US payments execution.
  - Fedwire Funds Service is predominantly associated with the processing of wholesale payments, including treasury payment settlement.
  - The average payment value is significantly higher vs the payment value processed via FedNow, and the transaction value of payments does not have the same restriction as FedNow.
  - Fedwire Funds Service payments processing includes numerous necessary steps, especially in regard to the international USD payments (e.g., sanctions screening).
  - Fedwire Funds Service has unparalleled reach (available for all the Fedwire participants vs currently limited number of FedNow participants).
  - Fedwire Funds Service is utilized in the processing of the “time critical” payments (e.g., CLS funding).

While there are overlaps between FedNow and the Fedwire Funds Service, fundamentally, the use cases for each system are different:

- FedNow and the Fedwire Funds Service are expected to co-exist and will continue to service payments meeting pre-defined criteria and use cases.
  - Fedwire Funds Service will largely continue to facilitate the flows of incumbent customers and extended operating hours may gradually create incremental use cases. Please see our answer to question 2 for further detail on volume expectations.
5. Do you prefer an interim expansion of operating hours before moving to 22x7x365? If so, what operating hours for the Fedwire Funds Service and NSS would be most useful for your institution? What considerations factor into your preference?
- Industry feedback on demand relative to investment costs and resilience risks should be evaluated to determine the appropriate interim step, including whether an interim step short of 22x7 is more practical to preserve sufficient system downtime for maintenance and contingencies.
  - An interim step that can be considered as an alternative is the introduction of 22x6x365 before the move to 22x7x365. Based on the views among PRC working group members, it appears that the challenges represented by 22x7x365 and 22x6x365 are largely the same, hence it may be more advisable to move to 22x7x365 instead of having two different interim steps. This approach would reduce the implementation burden for Federal Reserve Banks, service providers, and for participating banks. However, we recommend that the Federal Reserve and the industry continue to evaluate 22x7x365 vs 22x6x365 as the expanded operating hours project is embarked.
  - An immediate move to 24x7x365 represents a material challenge for the industry and if perceived as the only option, may cause a slower than desired adoption.

6. What is your preferred timeline for a potential expansion of Fedwire Funds Service and NSS operating hours to 22x7x365? What considerations factor into your preference (for example, demand, time to implement changes, adjustments to staffing and internal systems, other major industry milestones or payment system improvements)?
- Implementation of extended operating hours should happen after the Fedwire Funds Service migration to ISO 20022.
    - The timeline proposed in the document (not earlier than 2027) represents a realistic proposal and accommodates the ISO 20022 transformation (day one as well as the following enhancements) and other competing projects.
  - Extended availability of the discount window borrowing will be critical as there is limited availability of funding tools over the weekend.
  - The PRC recommends the Board coordinate an industry wide feasibility study and cost-benefit analysis on extending the operating hours of the Fedwire Securities Service (FSS) and Collateral Management System to 22x7x365, to allow for use of collateral over weekend and holiday dates. This will be required for active pledging of collateral at the discount window during the extended operating hours.
    - This feasibility study and cost benefit analysis should be separate to the timelines for Fedwire Funds Service expanded hours.

The factors impacting the adherence to the proposal are associated with several areas:

- Requirement to address competing projects (including the ISO 20022 transformation and CHIPS extended hours project).
  - Technology changes required to accommodate the continuous operating model.
  - Changes in the operating environment required to cover processes during the weekends and US holidays.
  - Potential changes in treasury and liquidity management.
7. Are you interested in full 24x7x365 operating hours for Fedwire Funds Service and NSS? If so, what is your preferred time frame for such an expansion of operating hours? What considerations factor into your preference?
- Considering the global importance of the Fedwire Funds Service, it is recommended that precautions and gradual steps be taken in the delivery of the continuous operating model with the goal of migrating to 24x7x365, provided there is a strong rationale supported by industry demand.
  - An immediate move to 24x7x365 represents a material challenge for the industry and if perceived as the only option, may cause a slower than desired service adoption.
  - A move to 24x7x365 may require material incremental changes in the way banks operate, especially in regard to today's batch processing with the explicit end of the day to "always-on" service.
  - A move to the 24x7x365 operating model creates material challenges especially in regard to technology and resiliency. Service enhancements or technology servicing will no longer benefit from the previously available service downtime. In case of adverse events and service disruption,

the time available to address challenges without impacting clients would be significantly reduced. This needs to be considered in the decision to migrate to 24x7x365.

- The migration to 24x7x365 should happen after the interim step of 22x7x365 is fully delivered, matured, and absorbed by a critical mass. The migration to 24x7x365 should be evaluated at that stage to understand the cost/reward for the Federal Reserve and the industry.
8. What costs and risks would arise for the banking industry, financial markets, and broader economy from an expansion to 22x7x365 of Fedwire Funds Service and NSS operating hours? What are the costs and risks to your institution? What is the estimated incremental cost on a percentage basis to support 22x7x365 operating hours for the Fedwire Funds Service and NSS? What are the implications for competitiveness?
- **Liquidity** - Implementation of the 22x7x365 operating model will impact liquidity management and liquidity costs for the participating financial institutions and triggers a requirement to enhance ancillary systems. Reserve and overnight balances may need to be increased or the participating bank's Federal Reserve account may need to be prefunded as securities and repo markets are not available during the weekends and holidays, to support funding needs. In addition to the availability of the discount window, the SRF should be available as well. To assure the ability to collateralize these facilities, FSS and CMS should also be available during extended hours. Further, the Board must review institution liquidity requirements and clarify how the occurrence of payments during these expanded weekend and holiday hours will be treated for the purposes of institutions' liquidity ratio calculations and other liquidity measures and reporting requirements.
  - **Technology, Operational**
    - a. Operational risk - participants would need to adjust operational processes and train staff adequately— e.g., sanctions disposition during extended operating hours. A short gap between working days leaves a small margin of error to address unforeseen events (e.g. payment processing system outage).
    - b. Daily processes (e.g. end of day) as well as resiliency processes may require changes to address the demand of service delivery 7 days a week.
    - c. Technology – transformation to 22x7x365 processing especially at the beginning of project execution may be exposed to unforeseen technology challenges that may impact the ability of participating banks to execute transactions. Very limited “down-time” inherently leaves participating banks no time to address technology challenges without causing distress to the financial system.
  - **Resiliency**
    - a. Moving to 22x7x365 removes a large portion of “down-time” windows that currently are often used by banks to maintain/enhance systems. Banks, as well as FMI operators, will have to adopt a new approach to manage the technology environment.
    - b. In the event of a protracted outage of Fedwire Funds or an important participant, there may be a material impact on the stability of currency clearing with far reaching consequences beyond the US domestic market. While a potential protracted outage event represents a material risk for the industry in the current 22x5 operating model, adverse events after the migration to 22x7x365 may represent a more significant

challenge due to reduced amount of “down-time” available for the Federal Reserve and participants to form a response and deliver contingency and remediation actions.

- **Business**
    - a. Mandatory vs opt-in participation – many participants may not see a use case for adoption of extended operating hours for Fedwire Funds since the implementation of the technology and/or operational changes may require material investment. However, a lack of critical mass will limit the value of the service for participating banks and their clients. The Board should engage with the industry on the results of the consultation to confirm a viable level of opt-in for the initial implementation.
  - **Bank run / crisis scenario** – there may be a risk of accelerated funds outflows from financial institutions in distress.
    - a. In the event of a bank run on a financial institution that participates in extended operating hours, there may be an elevated risk of accelerated deposit withdrawals.
  - **Costs**
    - a. The implementation of the continuous operating model may require material investment in technology as well as ongoing operational expenses to absorb the activity during newly introduced operating hours. The cost of this transformation will be different for each financial institution and driven by incumbent readiness, changes in the technology environment, processes, and staffing during extended operating hours.
    - b. One of the elements that may help manage additional operational and non-operational expenses would be to review and possibly modify how payment products and services may be offered to meet a different operating model.
  - **Competitiveness**
    - a. Contributes to the competitiveness of the USD as the currency of choice for global trade.
    - b. A 22x7x365 operating model enables the acceleration of payment processing times and increases the competitiveness of US financial institutions, especially in the context of USD Clearing services offered to international financial institutions and when compared to non-bank financial institutions.
    - c. Indirectly, a 22x7x365 operating model enables corporate customers to manage liquidity in more effective manner.
9. What are the ways in which benefits, costs, or risks of 22x7x365 Fedwire Funds Service and NSS could vary for different types of market participants (for example, for smaller institutions, non-traditional participants, or participants in particular time zones)?
- The extended operating hours proposal may be received differently depending on the profile of the Fedwire Funds Service participant.
    - The migration to 22x7x365 (as well as 24x7x365) may require material changes in delivery of the operational and technology enhancements.
    - Large banks that service multinational corporations and offer clearing services to international financial institutions may have a strong incentive to use expanded hours and better serve customers through the enhanced capabilities.
    - Small-medium banks that are less anchored in international payments processing, may see a value in extended operating hours to service their corporate and consumer

clientele. It is worth mentioning that for these banks it may be more advantageous to embrace FedNow since the FedNow Service may be more suitable to address customer needs.

10. Are there infrastructure-related market conditions or barriers (for example, the availability of short-term funding markets over the weekend) that may prevent or reduce your firm's ability to fully achieve the potential benefits of 22x7x365 operating hours for the Fedwire Funds Service and NSS? If so, what are they? What steps might the industry and/or Federal Reserve take to remove such barriers?

- Barriers that could prevent or reduce the ability to achieve the objectives of extended operating hours have not been identified. However, lack of funding options during extended hours could be an obstacle from a contingency perspective. Having the infrastructure to use the discount window and services such as FSS and CMS during extended operating hours, would be important.
- Funding availability other than the discount window should also be available. Facilities like the SRF and FHLB credit with the ability to move collateral between Fed and FHLB facilities would go a long way to ameliorate funding concerns.
- Assurance of SWIFT GPI availability for payments transparency during the extended operating hours would be important to assure adequate transparency.

11. The Federal Reserve plans to maintain the ability to opt out of expanded hours. How would the optionality with respect to participating in a 22x7x365 operating hours environment of the Fedwire Funds Service and NSS, as described in this notice, benefit or challenge your institution or the broader industry? What steps might the Federal Reserve take to augment potential benefits? What steps might the Federal Reserve take to mitigate potential costs and risks?

- It will be important to implement a transparency mechanism to increase the reliability of the system and the finality of payment execution. Participating banks should be able to determine if the receiving party is available to receive and process incoming payments. In case the execution of the transaction during the extended operating hours is not possible, the transaction should be warehoused by the initiating institution and processed during the incumbent operating hours. With the transparency mechanism in place, financial institutions will build confidence in the service and by proxy, will be able to deliver an enhanced experience to underlying customers.
- The opt-out ability provides a balanced approach to the initiative's implementation. Many banks may struggle to form a strong use case that would support material investment in the infrastructure.
- With the opt-out approach, the creation of the transparency capability for the banks that will embrace the service is going to be critical and will contribute to the growth of service utilization and the trust of US and international clients.
- To manage potential on-going additional operational and non-operational expenses, participants may need to review and possibly modify how payment products and services may be offered to meet a different operating model.

12. How does your institution anticipate managing liquidity needs in an expanded hours environment? Is the availability of discount window loan originations on weekends and holidays a prerequisite for expanded operating hours for the Fedwire Funds Service and NSS? If so, should the discount window

be available 22x7x365, or alternatively, during certain defined hours on weekends and holidays? During what hours should discount window loan originations be available?

- Liquidity needs for BAU would be met via prefunding as well as enhanced intraday liquidity management controls for weekend/holiday hours.
- Discount window and other funding solutions should be available, including access to the SRF or a potential new weekend/holiday facility.
- Infrastructure needed to transfer and manage collateral should also be available, including Fedwire Securities Service, the Collateral Management System, access to FHLB credit and/or interbank funding.
- Operating hours of the discount window should at least match those of Fedwire Funds Service.
- Participants may hold more cash reserves over the weekend, as funding options (e.g. repo markets, wholesale funding markets) will most likely not exist.
- Considering the complexities of liquidity management and potential changes in the characteristics of existing liquidity management tools, further consultation with the industry may be required to ensure that the payment capabilities and liquidity management capabilities evolve in a synchronized manner.
- Promotion of alternative funding options: As the discount window is a last resort, it is crucial for the Federal Reserve to actively promote alternative funding mechanisms beyond the discount window to ensure the seamless operation of intraday liquidity management during extended hours. The diversification of funding sources will maintain the efficiency of the market during the new operating hours and reduce the operational cost for all participants. The success of the extended operating hours initiative hinges on the availability and reliability of these alternative funding options.

13. What effects, if any, on funding market activity should be taken into account when considering the expansion of operating hours for the Fedwire Funds Service and NSS? Would the expansion of operating hours for the Fedwire Funds Service and NSS affect existing wholesale funding markets, including the repurchase market? Do you expect wholesale funding market activity to occur on weekends and holidays?

- In the short-term it would probably not have a major impact on funding activity other than potentially limiting funding options for contingency purposes. It would be interesting to understand better if other markets plan on moving to a 22x7x365 model in the future.
- No material change is expected for wholesale funding or repo markets as these typically follow underlying asset markets (SIFMA operating hours). It is expected that extended Fedwire Funds operating hours may lead to an increase in cash reserves held.

14. Describe any other enhancements or initiatives that the Reserve Banks should consider in addition to, or in the context of, expanded hours for the Fedwire Funds Service and NSS. How would such potential enhancements be used in the context of expanded hours? Are there any potential service enhancements that should be prioritized ahead of expanded hours?

- Operational constraints for repositioning collateral (e.g. Fedwire Securities/DTC, not extending to holidays/weekends) could be problematic in stress scenarios. Additional funding solutions should be developed over time.
- While discount window access would not be a BAU requirement, access should be made available on holidays and weekends for contingency purposes.

- Other funding sources should be available, such as the SRF and access to FHLB credit, along with the infrastructure needed for their collateralization and collateral valuation.
- Daylight overdrafts over extended hours should not be required to be cleared until the next normal business day.

15. Please describe any other consideration that you believe should be taken into account as the Board contemplates expansion of operating hours for the Fedwire Funds Service and NSS.

- Revision of the resiliency scenarios that would be adequate for the new operating model.
- Review of extended operating hours implications for the process of Fed Extensions.
- Time of the day closure and day opening should remain unchanged for the 22x7x365 interim step.
- Service suspension by the Federal Reserve in case of a crisis event (outage of the major participant, bank run).
- Service suspension of participating banks (in case of e.g., technical enhancements delivery).
- A clear description of implications of expanded operating hours and reserve account movement with respect to liquidity regulations and reporting requirements (e.g. LCR, ILST).