

November 7, 2019  
Ann E. Misback  
Secretary, Board of Governors of the Federal Reserve System

RE: Docket No. OP – 1670; Federal Reserve Actions to Support Interbank Settlement of Faster Payments

Dear Ms. Misback:

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 Federal Reserve Actions to Support Interbank Settlement of Faster Payments.

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 below and to advance the interests of the payments industry in promoting adoption of ubiquitous, safe and efficient faster payments in the United States. 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,

The PRC Member Banks

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<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, State Street and Trust Company, UBS AG and Wells Fargo.

The PRC recognizes differing views in the market on the Federal Reserve's consideration to offer faster retail payments under FedNow. We will defer to our industry participants to provide their commentary on the merits and demerits of the Federal Reserve's role.

Given the remit of the PRC and its view that interbank payment system settlement is both a core responsibility of the Federal Reserve (as the central bank in the U.S.) and a critical component in maintaining the safety, soundness, and efficiency of payment systems, the PRC comments will focus on the expansion of Fedwire Funds Service operating hours which would facilitate settlement aspects of a real time payments ecosystem in the U.S. The PRC refers the FRB to our Comment Letter dated December 14<sup>th</sup>, 2018 RE: Docket No. OP-1625.

The PRC supports the Federal Reserve's proposal to explore the expansion of hours for the Fedwire Funds Service. Specifically, advantages from an expansion of hours include:

- i. Offering "Just-in-time" 24x7x365 liquidity management in central bank money for participants of private-sector faster payments and other initiatives that support the objectives of real time payments.
- ii. Providing the most effective way to provide liquidity management in a real-time environment and to decrease deferral of settlement (to optimize liquidity and risk management) in other retail payments services, including certain faster payments and card services.
- iii. Supporting global clients' needs in markets operating at different time-zones or geographies where normal activity takes place during Fedwire's "off" hours (e.g. Asia) or "off" days (e.g. Middle East), including an acceptance of other non-US holiday schedules
- iv. Facilitating cross currency intraday liquidity management among market participants to optimize available liquidity around the world, while at the same time reducing FX settlement risk for USD.
- v. Supporting the Federal Reserve's stated goals and objectives for interbank settlement of faster payments. For example, Fedwire Funds would be an effective channel to enable transfers between Federal Reserve accounts, both between individual master accounts of financial institutions and between individual master account and other accounts established to support settlement of Real Time Payments (RTP).

Furthermore, we would like to highlight the criticality of the Fedwire's move to 24x7x365 in order to protect the position of USD's leading role as the settlement currency of choice for international trade settlement and for the funding of cross-border payments delivered in local currencies (as well as insuring that Fedwire remain the primary settlement mechanism for USD regardless of size or timing).

- i. As international businesses operate more and more in a 24x7x365 fashion (e.g. e-commerce and global economies), the underlying cross-border payments driven by these businesses need to happen 24x7x365 as well. While options to offer 24x7x365 cross border payments for consumers exist (e.g. credit cards), deferred settlement makes them sub-optimal for the businesses from liquidity and credit risk perspectives. Additionally, such existing options are not comprehensive in terms of their scale, reach and nature of flows that they can service (e.g. not suitable for large value transactions). The extension of Fedwire Funds Service operating hours

to 24x7x365 would significantly extend the ability of international commerce to be conducted 24x7x365 in USD.

- ii. A number of settlement systems for various currencies have moved or are moving to 24x5 and 24x7x365. It is, therefore, critical to enable true 24x7x365 settlement for USD, which plays, and wishes to continue to play a leading role in international trade.
- iii. USD is the most commonly used currency to fund cross-border payments which are ultimately delivered in local currency of the beneficiary. Historically the local “legs” of cross-border payments were not delivered 24x7x365. However, recently numerous faster payments systems have opened themselves (or are in the process of doing so) for cross border payments. With that in mind, demand for 24x7x365 liquidity in funding currency will increase as well.

However, we are conscious of the challenges, which include additional staffing in support of longer operating hours. In addition to a bank’s operations, account balance management will become more complex in this new environment. Banks would need to manage/monitor their master accounts 24x7x365 to insure that they maintain sufficient balances, which may require the FRB to provide options that banks can rely on to fund their master account 24x7x365 in order to stay compliant with Federal Reserve policies. Viable options the Federal Reserve should consider include providing access to the discount window on weekends and holidays.

To address various challenges the Federal Reserve should consider that extended hours be offered on an “opt-in” basis initially to give participants and the Board time to evaluate operational impacts. This option would allow banks to prepare based on their respective readiness and clients’ demand to support real-time 24x7x365 payments. We understand that this creates a potential competitive disadvantage for banks that choose not to operate 24x7x365, but if there is a way to operationalize different modules, it might be helpful for some participants.

We recognize the extension of the Fedwire Funds Service for bank to bank and customer transfers is an intricate, complex initiative, and requires further discussions between the Federal Reserve and market participants and a comprehensive assessment of many considerations including but not limited to operational, service, legal and technology. The PRC would welcome an opportunity to engage with the Board in broader and deeper assessments of the needs/benefits of expanded Fedwire Funds Service operating hours.