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July 23, 2004

Ms. Jennifer J. Johnson
Secretary of the Board
Board of Governors of the
Federal Reserve System
Washington, D.C. 20551

Dear Ms. Johnson:

Payments System Risk—Docket No. OP-1191

Our Banking Supervision and Regulation Department has several suggestions about the Board's proposed changes regarding risk management in payments and securities settlement:

Are the scope and application of the revised policy sufficiently clear, and do they provide the appropriate coverage to achieve the policy's intended objectives?

Scope. It would be useful to expand the discussion of measurement and expectations of monitoring for institutions just below the \$5 billion threshold.

Governance arrangements. Audit and risk management functions have different responsibilities and roles within an institution. It could be useful to delineate the respective expectations for them more distinctly.

Systemically important systems. The policy could usefully apply the rigor of recovery expectations found in the "Interagency Paper on Sound Practices to Strengthen the Resilience of the U.S. Financial System" to payments systems.

Do the benefits of a bright line quantitative threshold based on a system's daily gross settlement value outweigh the costs of using more complex factors to determine whether a system is covered by the policy? Should more qualitative or judgmental criteria be used instead? If a quantitative threshold is appropriate, does a threshold of \$5 billion a day continue to be reasonable? Should other quantitative criteria be considered?

Our concern about an exclusively quantitative test is that a system that does not meet the \$5 billion threshold will not have to follow the policy statement even though the complexity of its operations would otherwise reasonably subject it to the policy statement's requirements.

Are the definition of what constitutes a system and explicit exemptions from this definition reasonable and appropriate?

Yes. However, there should be some clarification for systems that do not meet the \$5 billion threshold as to what guidance they should follow or continue to follow, whether they should strive to meet the new policy statement and, if so, to what extent. Systems should have consistent policies and procedures so that participants will follow same criteria and so that regulatory agencies can oversee these systems adequately.

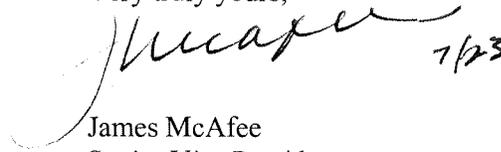
Do the general policy expectations of a sound risk management framework, laid out in part B of the revised policy, give more structure and specific guidance to system operators and participants than the current policy's primary focus on types of risks and the general need to manage these risks?

Yes. Part B of the revised policy brings out the expectation for systems to establish a sound risk-management framework.

In applying the Core Principles and the Recommendations, do the six criteria presented in the proposed policy appear reasonable for determining if a system is systemically important? Are there other factors that the Board should consider when determining whether a system is systemically important?

The six criteria presented in the proposed policy appear reasonable for determining if a system is systemically important. However, the Board should clarify whether system meeting just one of the six criteria would need to follow the policy statement.

Very truly yours,

A handwritten signature in black ink, appearing to read 'J McAfee', with the date '7/23' written to the right of the signature.

James McAfee
Senior Vice President
and General Counsel