

Payments Risk Committee

Lori Hricik
Executive Vice President
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1 Chase Manhattan Plaza
New York, NY 10081

June 4, 2004

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

RE: Proposal for a Working Group to address Implementation of the Policy Statement on Payments System Risk Federal Reserve Docket No. OP-1182

Dear Ms. Johnson:

The Payments Risk Committee (PRC) would like to recommend the formation of a Working Group under the auspices of the Board of Governors of the Federal Reserve System to make recommendations on the implementation of the Policy Statement on Payments System Risk Federal Reserve Docket No. OP-1182.

The purpose of this OP-1182 Working Group would be to formulate a plan to phase in the changes to the daylight overdraft measurement rules relative to payment of Government Sponsored Entities' (GSEs) interest and redemption proceeds to ensure that the planned changes can be absorbed by market participants in a manner which minimizes the potential for market gridlock and allows for a gradual adjustment. We believe that a working group sponsored by the Federal Reserve would promote greater transparency and cooperation in the development of recommendations on how to implement the proposal in a manner that allows for realization of policy goals as expeditiously as possible while keeping market disruptions to a minimum.

We recommend that members of the Working Group include at a minimum representatives of the Board of Governors of the Federal Reserve System, the Federal Reserve Bank of New York, GSEs, settlement banks, custodian banks, interested industry groups, the broker dealer community, buy side participants, and the Payments Risk Committee.

We believe the Working Group should be tasked with developing and evaluating topics including, but not limited to:

- Historical and prospective data from the GSEs on the interest and redemption dollar amounts each day, timing of current payments for each entity and duration of the overdraft (if any) with the Federal Reserve, given the current payments posting at 9:15am
- Evaluation of the data to determine industry-agreeable recommendations on such items as:
 - o Timing of interest and redemption payments for each GSE
 - o Method of implementation (e.g., phased implementation starting with the smaller GSEs, pilot implementations for selected banks)
 - o Sources of credit to GSEs to cover intraday overdrafts
 - o Management of daylight overdrafts and debit caps
- Evaluation of the system requirements and operational issues arising out of the proposal
- Credit implications of treating GSEs as stand-alone entities similar to other large corporate customers

We believe that there is precedence for formulation of this type of group as a similar approach was utilized when the settlement of Ginnie Mae mortgage backed securities was transferred from Depository Trust & Clearing Corporation (DTCC) to the Federal Reserve Banks. We propose that this Working Group commence meetings as soon as possible to begin addressing the issues outlined above as well as additional relevant issues that may surface during the course of the review.

Brenda Boulwood, currently of Bank One, and Kathleen Voigt of State Street are PRC representatives who have agreed to help both logistically and with subject matter expertise to assist in follow-up on this letter, if desired. Brenda can be reached at 312 954-5210 and Kathi at 617 664-3454. You may also contact me at 212 552-0364.

Sincerely,

