

**FEDERAL RESERVE SYSTEM**  
**[Docket No. R-1138]**  
**Expansion of the Operating Hours for the On-Line Fedwire® Funds Service**

**AGENCY:** Board of Governors of the Federal Reserve System.

**ACTION:** Notice.

**SUMMARY:** The Board has approved the expansion of the operating hours for the on-line Fedwire Funds Service from eighteen hours to twenty-one and one-half hours each business day.<sup>1</sup> The new opening time will be 9:00 p.m. eastern time for on-line funds transfers with a business date of the following calendar day.<sup>2</sup> The closing time for the service will remain at 6:30 p.m. The Board believes that further expansion of Fedwire operating hours will support the smooth functioning and continued development of the payments system, and improve efficiency and reduce risk in conducting U.S. dollar payments and settlements. Fedwire participants will not be required to change their current hours of participation in the service. The expansion of hours for the on-line Fedwire Funds Service will not affect the operating hours for the origination of off-line funds transfers or telephone advice of credit, and will not affect the operating hours for the Fedwire Securities Service.

**DATES: IMPLEMENTATION TIMEFRAME:** Second quarter 2004.

**FOR FURTHER INFORMATION CONTACT:** Jack K. Walton II, Assistant Director (202/452-2660), James K. Owens, Manager (202/728-5848), or Lorna R. Prosper-Harley, Senior Financial Services Analyst (202/452-2690), Division of Reserve Bank Operations and Payment Systems, Board of Governors of the Federal Reserve System; for users of Telecommunication Devices for the Deaf (TDD) only, contact 202/263-4869.

**SUPPLEMENTARY INFORMATION:**

**I. Background**

On December 19, 2002, the Board published for comment a proposal to expand the operating hours for the Federal Reserve Banks' on-line Fedwire Funds Service (67 FR 77786). The impetus for the proposal was industry requests to achieve greater overlap of U.S. wholesale payments system operating hours with those of the Asia-Pacific markets, including Australia, Hong Kong, Japan, and New Zealand. The Board has carefully reviewed the proposal and comments received, and has approved the proposal. After implementation of the new hours, the Fedwire operating hours will overlap the operating hours of major Asia-Pacific large-value payments systems by an additional three and one-half hours.<sup>3</sup> The Federal Reserve Banks expect to test with

---

<sup>1</sup> The current Fedwire business day begins at 12:30 am and ends at 6:30 pm. All references to Fedwire apply to the on-line Fedwire Funds Service unless otherwise noted. Fedwire is a registered servicemark of the Federal Reserve Banks.

<sup>2</sup> All references are to eastern time.

<sup>3</sup> Under current hours, the Fedwire operating hours overlap the operating hours of major Asia-Pacific large-value payments systems by four to five and one half hours.

participants beginning in the third quarter of 2003 and will implement these hours in the second quarter of 2004. The exact testing and implementation dates will be announced by the Federal Reserve Banks' Wholesale Product Office at least sixty days in advance and published on the Federal Reserve Financial Services web site at [www.frbsservices.org](http://www.frbsservices.org).

## **II. Summary of Comments**

The Board requested comment on whether the opening time for Fedwire should be changed from 12:30 a.m. to 9:00 p.m. the previous calendar date or whether another opening time would be preferable. In addition, the Board was interested in commenters' views regarding the business, market, risk management, and operational issues that should be considered in evaluating the advantages and disadvantages of a 9:00 p.m. to 6:30 p.m. Fedwire business day.<sup>4</sup>

Eighteen comments were received in response to the Board's request. These commenters included four credit unions, four state banks, three national banks, two Federal Reserve Banks, one clearing house, and four trade associations. The majority of commenters generally supported an expansion of the Fedwire operating hours. Only two commenters did not support an expansion of operating hours. One of the two contended that the previous expansion of Fedwire operating hours in 1997, coupled with the availability of Continuous Linked Settlement (CLS) services in 2002, has already significantly lowered settlement risk in foreign exchange markets. Consequently, this commenter believes that a stronger business case for further expansion of Fedwire hours is needed to justify the additional costs depository institutions could incur in adopting an earlier Fedwire opening time. The second commenter did not believe that there was any need to expand the operating hours of Fedwire at this time. After considering these concerns, the Board has concluded that they are outweighed by the expected benefits from the expansion of Fedwire operating hours. This conclusion, in part, is based on the fact that participation during the early hours is voluntary and that a large majority of commenters support the expansion of operating hours.

Two additional commenters supported the Board's proposal, but also noted that the Board's stated goal of assisting institutions operating in multiple time zones would better serve their needs if the Fedwire closing time were expanded to 9:00 p.m. and the opening time for the next business day remained at 12:30 a.m. The vast majority of commenters, however, supported an earlier Fedwire opening. Thus, the Board concluded that there is significantly greater demand at this time for an earlier opening of Fedwire than for a later close.

---

<sup>4</sup>The Reserve Bank and Fedwire business days include all days except the following standard holidays that are observed by the Reserve Banks: all Saturdays, all Sundays, New Year's Day (January 1), Martin Luther King's Birthday (third Monday in January), President's Day (third Monday in February), Memorial Day (last Monday in May), Independence Day (July 4), Labor Day (first Monday in September), Columbus Day (second Monday in October), Veterans' Day (November 11), Thanksgiving Day (fourth Thursday in November), and Christmas Day (December 25). If January 1, July 4, November 11, or December 25 fall on a Sunday, the next following Monday is a standard Reserve Bank holiday.

Commenters expressed technical concerns with the Board's proposal in three primary areas – end-of-day procedures, extensions, and account balance information.

A. End-of-day Procedures

Two commenters indicated that the period of two and one-half hours between the scheduled close of Fedwire and the proposed open of Fedwire for the next business day might not be sufficient to complete necessary end-of-day processing and procedures. Because participation in the expanded hours is voluntary, the Board believes that depository institutions will be able to adjust their participation in Fedwire to allow sufficient time for their end-of-day activities.

B. Extensions

Five commenters expressed concern that the decreased interim period between the close and open of Fedwire would restrict the Federal Reserve Banks' flexibility in granting extensions to the Fedwire business day. These commenters want the Federal Reserve Banks to retain the flexibility to grant extensions on a case-by-case basis to help mitigate substantial market disruptions, if they occur. Further, these commenters believe that the Federal Reserve Banks should encourage key Fedwire participants to minimize or eliminate the need for extensions of processing deadlines, except in extreme circumstances. The Federal Reserve Banks intend to continue to grant extensions according to published criteria.<sup>5</sup> In general, the Federal Reserve Banks will work to maintain a two-hour interim period between the close and open of Fedwire each business day.

6

C. Account Balance Information

Three commenters expressed concern that depository institutions' Federal Reserve account balances may not reflect all of the previous day's payment activity at the proposed 9:00 p.m. open of Fedwire. These commenters note that the use of provisional, rather than final, account balances could adversely affect the risk management practices of those institutions participating in the earlier hours. One commenter suggested further that transactions that cannot be posted by the close of Fedwire should be posted to accounts the following business day. The Federal Reserve Banks are analyzing the sources of late postings to Federal Reserve accounts and will take appropriate steps to reduce the number and value of these postings, particularly debits to accounts, where possible.

---

<sup>5</sup> The criteria for granting extensions can be found in Federal Reserve Operating Circular 6. Operating Circulars are available at [www.frbservices.org](http://www.frbservices.org).

<sup>6</sup> This two-hour period is based upon discussions between the Wholesale Product Office and industry participants regarding participants' current end-of-day processing limitations and is subject to future change. In some cases involving a delayed close of Fedwire, in order to maintain a two-hour interim period, the Wholesale Product Office may need to delay the opening of Fedwire for the next business day. In extreme circumstances, however, the Federal Reserve Banks may need the flexibility to shorten the interim time period. Further, in the long term, the Federal Reserve Banks may have to reevaluate their extension policy to sustain the ability to open Fedwire timely.

### III. Implementation

#### A. Fedwire Funds Service Business Day and Operating Hours

As a result of expanded Fedwire hours, the Federal Reserve Banks' funds transfer business day will begin with the opening of Fedwire at 9:00 p.m. on the previous calendar day. For example, Fedwire will open at 9:00 p.m. on Sunday night for transactions dated the following Monday. The closing time for the Fedwire will remain at 6:30 p.m. The service will be available for business days Monday through Friday, except for specified holidays observed by the Federal Reserve Banks.

#### B. Notification of Participation

One Fedwire participant indicated that it would find a listing of depository institutions that plan to participate during the early hours useful. This participant stated that this information would be helpful in assessing whether it would be beneficial to use its intraday liquidity to initiate certain Fedwire funds transfers during the early hours. The Federal Reserve Banks' Wholesale Product Office will consider providing a list of early hour participants on the Federal Reserve Financial Services web site at [www.frbservices.org](http://www.frbservices.org).

#### C. Fees for Transfers Made During Early Hours

During the new 9:00 p.m. to 6:30 p.m. business hours, transaction fees for Fedwire funds transfers will be charged at the same level and in the same manner as transfers made during the current 12:30 a.m. to 6:30 p.m. business hours.

#### D. Intraday Credit

Under expanded hours, Federal Reserve intraday credit will be provided to Fedwire participants in the same manner and on the same terms that such credit is currently provided. While the calculation of the daylight overdraft fee will be adjusted to reflect the expanded Fedwire operating hours, the fee assessed for the use of intraday credit will not change for an overdraft of a given size and duration.<sup>7</sup>

#### E. Monetary Control and Reserve Management

The Board believes that an expansion of Fedwire operating hours will not affect the current process of reserve management for depository institutions. Because there is a sufficient break in time between Fedwire operating days to allow for measuring reserve holdings, the earlier opening time will not pose monetary measurement and control issues for the Federal Reserve.

---

<sup>7</sup> While the effective annual rate charged on daylight overdrafts would change from 27 basis points under an 18-hour Fedwire operating day to 32.25 basis points under a 21.5-hour Fedwire operating day, the annual rate charged on daylight overdrafts would remain at 36 basis points. This increase in the effective annual rate will not lead to an increase in fees for daylight overdrafts of a given size and duration because there will be an offsetting increase in the number of minutes used to calculate average daylight overdrafts. An example of the daylight overdraft fee calculation is available at <http://www.federalreserve.gov/paymentsystems/psr/overview.pdf>.

#### **IV. Competitive Impact Analysis**

All operational and legal changes considered by the Board that have a substantial effect on payments system participants are subject to the competitive impact analysis described in the March 1990 policy statement “The Federal Reserve in the Payments System.”<sup>8</sup> Under this policy, the Board assesses whether the proposed change would have a direct and material adverse effect on the ability of other service providers to compete effectively with the Reserve Banks in providing similar services, due to differing legal powers or constraints or due to a dominant market position of the Federal Reserve deriving from such legal differences.

The Board has concluded that the expansion of Fedwire operating hours would not have a direct and material adverse effect on the ability of competitors to compete effectively with the Reserve Banks. The Reserve Banks are the only providers of real-time gross settlement of funds transfers in central bank money in the United States. The main alternative provider of large-value funds transfer services, and a number of depository institutions, have provided comments noting the advantages to them of expanding Fedwire operating hours. In particular, these organizations believe that the expansion of the Fedwire operating hours will allow them to enhance the finality of the U.S. dollar payment and settlement services they are able to provide internationally.

By order of the Board of Governors of the Federal Reserve System, May 20, 2003.

Jennifer J. Johnson (Signed)

---

Jennifer J. Johnson,  
Secretary of the Board

---

<sup>8</sup> Federal Reserve Regulatory Service 7-145.2.