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VIA EMAIL to regs.comments@federalreserve.gov

July 19, 2024

Ms. Ann Misback, Secretary
Board of Governors of the Federal Reserve System

RE: Docket No. OP-1831 – Expansion of Fedwire® Funds Service and National Settlement Service (NSS) Operating Hours

On behalf of the EPCOR Board of Directors, members and staff, thank you for the opportunity to provide input on the proposal to expand Fedwire Funds Service and National Settlement Service (NSS) operating hours.

EPCOR hosted a webinar with interested members, primarily comprised of financial institutions, to discuss the proposal. Among the EPCOR member financial institutions attending, a significant number of institutions hold assets less than \$100 billion. A substantial number send and receive wire transfers and ACH payments as well as process checks. As it relates to wire and ACH processing, almost 50 percent of attending institutions utilize overnight delivery hours.

EPCOR members were neither entirely in agreement with nor completely against the adoption of the proposed operational changes. Generally, members felt this expansion would require technical upgrades to software/systems, changes to staffing, additional controls to address increased fraud risks, more flexibility related to liquidity needs and updates to policies and procedures within a compact timeframe. Comments to specific questions within the Request for Comment follow.

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?

Only 16 percent agreed with the proposed benefits outlined in the RFC, while 65 percent agreed with some benefits and disagreed with others.

The primary benefits noted by members included faster movement of funds and availability, liquidity management, cross-border improvements and increased service options for account holders. Additionally, some expressed that a benefit would be competing with instant payment systems such as the FedNow® Service and RTP®.

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?

EPCOR members overwhelmingly felt businesses would create the most significant source of demand for the expanded hours (78 percent) versus consumers (22 percent). In response to transaction types and possible



Electronic Payments Core of Knowledge

use cases, members advised payroll, utilities or other bills, insurance claims, reimbursements, vendor payments, cross-border and accounts payables/receivables are expected to be processed during the expanded hours. Some members expressed concern that more fraudulent transactions may also occur.

Sixty percent were not sure the expanded hours would present new or additional volume for their financial institutions. However, 41 percent felt the expanded hours could cause existing volume to shift to weekends and holidays while 44 percent were unsure.

3. How might expanded operating hours of the Fedwire Funds Service and NSS support private-sector innovation?

It was suggested that payments, including direct deposit of payroll and federal government benefits, with fixed payment dates could be processed on the scheduled effective date rather than the preceding business day when the payment due date falls on a weekend or holiday. For example, many payrolls are scheduled for the 15th and 30th of each month and this expansion could allow direct deposits on those days even if they fall on a weekend or holiday.

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?

Currently, 24 percent of members attending are Receiving Financial Institutions (FIs) on the FedNow[®] Service, and three percent participate as Sending and Receiving FIs. Additionally, 41 percent are actively looking into onboarding.

Considering the accessibility of the FedNow[®] Service and RTP[®], many members questioned the need to expand Fedwire and NSS operating hours. In their view, these new instant payment systems fulfill the demand for 24x7x365 payment processing; therefore, the expansion of Fedwire and NSS operating hours seems redundant and less necessary. Additionally, they believe the FedNow[®] Service and RTP[®] volume will grow incrementally between now and the proposed 2027 implementation, which could reduce the need for expanded operating hours.

Conversely, some EPCOR members think the benefit of expanded hours for Fedwire and NSS coupled with the current per-transaction dollar limits for Fedwire, traditional ACH and Same Day ACH payments could provide a better solution to account holders over the FedNow[®] Service.

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?

One-fourth of EPCOR members in attendance agreed with the proposed expansion of both Fedwire and NSS to 22x7x365. The remainder were split with 42 percent uncertain and 36 percent disagreeing. When asked if they would prefer expanded operating hours for one service over the other, 56 percent noted they would like to see both expanded at the same time. However, 24 percent stated they would prefer expanding NSS operating hours over Fedwire.





Electronic Payments Core of Knowledge

Only 40 percent expressed interest in an interim expansion before fully moving to 22x7x365. Members cited considerations such as staffing (operations and call centers), readiness by core system providers, probable cash management implications, potential processing adjustments to meet return timeframes, possible updates to policies and procedures, settlement of payments, liquidity and meeting account holder expectations.

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)?

Forty-four percent favored expanding during 2027, while 53 percent favored a longer preparation time. Several members suggested three to five years would be a more appropriate implementation timeline.

Members cited the following considerations factored into their need for an extended timeline:

- Adjustments to staffing (91 percent)
- Internal systems (85 percent)
- Time to implement changes (83 percent)
- Payment system improvements (54 percent)
- Demand (48 percent)
- Other industry milestones, including updates to private sector rules and federal regulations (24 percent)

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?

Almost half of EPCOR members had no interest in expanding Fedwire and NSS to 24x7x365, and 37 percent were unsure. Several members thought it best to see how well 22x7x365 works first. While there is no material difference between 22x7x365 and 24x7x365, some expressed hesitancy due to possible implications for core processors. Other concerns related to staffing, private sector rules (e.g., Same Day ACH processing windows, return timeframes, posting and funds availability), posting of wires and mandatory participation in expanded hours.

Concern was also expressed about the economies of scale for smaller institutions versus larger institutions to successfully implement a fully connected Fedwire or NSS network and creating competitive disadvantages for smaller institutions. Difficulties adapting to 24x7, let alone 22x7, could create public perception issues when competing with other financial institutions for account holders.



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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?

Members noted their primary costs would result from additional staffing and associated overhead to cover expanded operating hours as well as expenses due to probable system changes and upgrades. Members expressed further concern surrounding the potential for increased fraud, which would require additional monitoring and mitigation efforts to be in place, thus adding to their costs.

EPCOR members felt opting out of the expanded operating hours would also widen the competitive gap between smaller and larger institutions. Opting out could negatively impact their reputation with account holders (e.g., inability to meet needs) and cause potential financial loss (e.g., loss of accounts).

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)?

EPCOR members believe expanding the operating hours will significantly benefit the West Coast financial institutions and may create some equality among all time zones. However, financial institutions on the East Coast may realize less benefit compared to the costs associated with choosing to participate in the expanded hours.

As for risks, participants suggested they may see an increase in fraud in general, including from cross-border transactions, due to quicker deliveries of payments.

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?

Members overwhelmingly agreed that barriers to fully achieving the potential benefits of 22x7x365 processing included:

- Staffing of operations area, client/member services and fraud department
- Core system limitations, adoption and availability
- Anti-Money Laundering (AML) and fraud software limitations and upgrades
- General IT costs

To alleviate concerns related to core processors, members suggested they receive a stipend to reduce the application and IT expenses incurred when offering new or expanded services from the Federal Reserve. Additionally, members recommended the Federal Reserve work closely with core processors to ensure they have ample time to prepare for the implementation of expanded operating hours. Members expressed the idea





Electronic Payments Core of Knowledge

to incentivize participation to help with market conditions and barriers to entry or to perform within the expanded hours environment.

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?

While EPCOR members favored the optionality of expanding to 22x7x365, they had questions pertaining to their level of participation, including:

- Can we piecemeal the opt-in (e.g., participate on Saturday but not Sunday; participate in Fedwire but not NSS or vice versa; participate on selective holidays, etc.)?
- Could we choose to expand to weekends, but not holidays?
- What level of non-participation is acceptable?
- Is there a chance that the expansion would become mandatory for all financial institutions?

Regardless of the answers to the above questions, members felt competitive pressures would influence smaller institutions to opt in. By doing so, smaller institutions could experience increased costs and risks compared to larger institutions with more resources available. These costs are related to staffing, core systems, fraud monitoring and already participating in instant payment networks such as the FedNow[®] Service and RTP[®].

To augment potential benefits, members suggested the Federal Reserve improve fraud detection tools, have no changes in fee schedules, incentivize participation, expand return timeframes and facilitate education for use cases and benefits. To mitigate costs and risks, members recommended improvements in communications between financial institutions, education on Federal Reserve account management and expanding return timeframes for checks.

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?

The majority of our members expressed liquidity concerns if Fedwire and NSS are expanded into the weekends. Their concerns ranged from availability of accounting staff members, access to funding at correspondent financial institutions, potential need to keep a higher balance in their Federal Reserve account rather than invest those funds to worries surrounding the availability of other wholesale funding outlets.



Electronic Payments Core of Knowledge

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?

Only one-third indicated the expansion would impact funding activities, while the remaining two-thirds were unsure of its effects. Members expect wholesale funding availability to expand to the weekends and holidays as well.

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?

With rising fraud events and needed communications between financial institutions, members recommended developing contact directories for services. Additionally, with limited staffing during expanded operating hours, members suggested the Federal Reserve implement and perform centralized OFAC screening, which would ensure an institution's ability to comply in a timely manner.

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.

Several members utilize correspondent financial institutions for processing and would like the Board to evaluate how the expansion affects both the correspondent and their respondent financial institutions.

Sincerely,

A handwritten signature in black ink that reads "Brandie Thacker".

Brandie Thacker, AAP, CAE
President & CEO
EPCOR

EPCOR is a not-for-profit payments association that provides payments expertise through education, advice and member representation. EPCOR assists banks, credit unions, thrifts and affiliated organizations in maintaining compliance, reducing risk and enhancing the overall operational efficiency of the payment systems. Through our affiliation with industry partners and other associations, EPCOR fosters and promotes improvement of the payments systems which are in the best interest of our members.



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