



**Circle Internet Financial, LLC**

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July 8, 2024

Ms. Ann Misback  
Secretary, Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue, NW  
Washington, DC 20551

Re: Docket No. OP-1831: Expansion of Fedwire Funds Service and National Settlement Service Operating Hours

Dear Ms. Misback,

Circle Internet Financial, LLC (Circle) appreciates the opportunity to respond to the Federal Reserve Board's (FRB) proposal on expansion of the Fedwire Funds Service (Fedwire) and National Settlement Service (NSS). Since our founding, Circle has prioritized constructive dialogue with U.S. regulators, and we welcome this opportunity to provide feedback on the FRB's proposals for technical infrastructure modernization. Central to Circle's vision for the financial sector is the belief that reducing friction and expanding access to critical financial infrastructure promotes competitive services, benefits American consumers, and ultimately builds a more resilient U.S. financial sector. We see this proposal as one important facet of modernizing the wholesale settlement system and bringing it into alignment with other global fast payments systems.

Please find below Circle's responses to selected questions from the proposal:

#### Responses to Select Questions

**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?**

Expansion of Fedwire and NSS operating hours presents a meaningful opportunity to modernize the wholesale settlement system and to revisit some of the underpinning services of the U.S. financial sector that help bank and payments institutions manage risk. Expansion of Fedwire hours will help participants manage liquidity and indirectly support the growing suite of 24x7 retail payment services, ultimately benefiting American consumers.

The vast majority by volume of retail payment services currently offered in the U.S. today operate on a 24x7 basis, and the current 22x5 operating hours creates meaningful settlement risks and potential for fragmented liquidity for both banks and non-bank financial institutions (NBFIs). From

an operational perspective, the proposed expansion will better support participants in managing their liquidity, indirectly allowing non-participants to better manage their real-time liquidity needs on a daily basis. The proposed expansion will likewise create benefits for Fedwire participants in the global payments market, increasing the overlap time with foreign firms engaged in global banking and commerce. This includes increased time-zone overlap with the financial sector in Asia and expanding the ability to settle during business hours in places like in the Middle East, both of which will reduce settlement risk for U.S. firms utilizing participant banks.

As a payments innovation, payment stablecoins such as Circle's USDC operate on a 24x7x365 basis, and the expansion will help better manage liquidity and fiat settlement with participating banks that adopt the expanded hours. From an operational perspective, expanded hours will reduce the credit risk to stablecoin issuers by narrowing the time gap between creation of a payment obligation and settlement. The proposed expansion can simplify liquidity management for NBFIs payments institutions like stablecoin issuers and their settlement banks, reducing the amount of pre-positioned funds or trapped liquidity NBFIs must hold. This will help reduce some of the weekend and bank holiday-related settlement risks stemming from Fedwire participants. Additionally, expanded hours will enhance the ability of dollar-backed payment stablecoin issuers such as Circle to facilitate cross-border payments, promoting the dollar in global payments and supporting the status of the U.S. dollar as the globally preferred settlement currency.

As discussed further below, however, the expansion of services could create additional risks if not properly mitigated, and it will be essential for the Fed to consider whether additional measures are needed to complement the expansion. Chief among these risks is that expanded Fedwire hours are likely to introduce additional demand for reserve liquidity and intraday settlement risks which can have wide ranging effects on short-term funding markets. We encourage the FRB to take a holistic view and ensure that efforts to modernize the wholesale settlement system are balanced and address the most material risks first before new ones are potentially introduced.

**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?**

There is already strong demand for 24x7 settlement services by many Fedwire and NSS participants driven by global demand at both the institutional and consumer level for the speed and convenience of instant payment services. Given the wide and diverse array of instant payments services already offered, we would expect many, if not most, existing Fedwire and NSS participants to look to adopt 24x7 service offerings or support real-time payment services ahead of the planned expansion in 2027, much like many of these institutions offered digital banking or

cloud-based services before complementary regulatory guidance was issued. As such, we expect demand for expanded Fedwire services would likely be broad and consistent with the widespread reach of 24x7 retail services currently offered.

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

As the recent regional banking volatility in the United States demonstrated, liquidity bottlenecks within the banking sector can have widespread and significant reverberations throughout the financial technology (fintech) space. It is estimated that over half of American startups, including multiple payment service providers (PSPs),<sup>1</sup> were impacted by the collapse of Silicon Valley Bank, which should cause regulators and the industry to more fully consider a separation of credit creation and payments – a position for which Circle has long advocated and addresses subsequently in this response. While expansion of service hours will reduce some of the counterparty settlement risk and potential for trapped liquidity among fintech and payments institutions, it will not address the significant liquidity deficit among NBFIs and, to the contrary, may create challenges in finding liquidity particularly during periods of stress. This will continue to have broad implications for the operation of payment systems that depend on depository institutions to transfer and settle dollar-referenced assets, factors which we recommend the FRB consider in parallel to the proposed hours expansion.

### **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?**

From an operational perspective, we generally support interim offering of weekend FedWire and NSS services to support better settlement risk and participant liquidity management and to keep pace with the increasing array of 24x7 retail payments offerings. However, we believe that any interim steps should be taken in consideration of the below effects and potential risks to short-term funding markets.

### **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?**

Payments currently operate globally on a 24x7x365 basis and a number of jurisdictions have demonstrated the ability to offer safe, reliable, 24x7 fast settlement systems, some with upwards of a decade of successful track record.<sup>2</sup> We would expect to see demand and increasingly global services that offer round-the-clock services that would be more effectively supported by 24x7

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<sup>1</sup> Bobby Allyn, “Silicon Valley Bank failure could wipe out ‘a whole generation of startups,’ (https://www.npr.org/2023/03/11/1162805718/silicon-valley-bank-failure-startups).

<sup>2</sup> Federal Reserve, “[Faster/Instant payments around the world: the highlights](#)”

Fedwire and NSS service. Furthermore, from an operational risk-management perspective, participants and NBFIs are already accustomed to managing certain risks on a 24x7 basis (e.g. third-party, cybersecurity) and so we would expect participants to generally have the technical infrastructure to support expanded hours.

**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?**

While expanded Fedwire services could create benefits for consumers, it likewise introduces additional demand for reserve liquidity and intraday settlement risks that cannot be addressed solely by expanded hours or increased discount window access. These challenges can only be solved through expansion of Fed master account access to NBFIs payments institutions. Expanding Federal Reserve master account access is critical for modernizing payment infrastructure in the U.S. and addressing large liquidity demands on participant banks, while also enhancing the stability of well-regulated payment institutions. A master account at the Fed would significantly reduce run risks on both Fedwire participants and NBFIs by improving the credit and liquidity of assets held by the NBFIs and reducing concentration risk of assets held in participant banks.

As a payment stablecoin issuer, we believe that granting Fed master account access to issuers would ensure that they can maintain full backing of the highest quality liquid assets and can utilize Fedwire services for redemption and issuance with fewer intermediary risks. Payment stablecoins today rely on banking partners to process wire transfers to and from customers, often relying on a diverse network of banks to access various customer segments. Current delays and frictions in the fiat settlement process can impose liquidity bottlenecks that in stress situations – such as the March 2023 banking crisis – can trap liquidity and prompt temporary dislocations in the secondary market prices of stablecoins. Access to Fed accounts would ensure that payments by both issuers such as Circle as well as other NBFIs PSPs could be fulfilled expediently without exposure to credit risks associated with uninsured deposits. For these reasons, even limited account access with restrictions on maximum balance holding would substantially reduce the risks to stablecoins, improve payment system integration, and preserve the singleness of money.

Additionally, the lack of direct access to Fedwire services by PSPs unnecessarily concentrates the risks of uninsured deposits into a subset of transactional banking partners used by PSPs. Even with expanded Fedwire hours for current participants, PSPs are likely to use the same subset of banking partners for ease and efficiency of intra-bank settlement of fiat balances. Intra-bank transfers are used because of the lack of ability to directly wire funds to and from payments firms. This further concentrates uninsured deposits from the digital assets sector in a handful of banks. Granting master account access would allow direct wire transfers with

payments institutions, and therefore reduce the concentration of uninsured deposits in a small number of banking partners. Such payment concentration risks have been found to deteriorate lending, as discussed in a recent study using Fedwire transactions,<sup>3</sup> and we would expect such a change to free up capital for bank credit creation.

**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?**

We recognize the FRB's intent to allow participants to "opt-in" to participation based on their business model, just as participant banks today have the option to provide 24x7 settlement services to meet business or retail demand absent complementary Fedwire hours. However, we encourage the FRB to establish a means to allow Fedwire participants and their customers to identify institutions offering expanded hours, such as a participant directory listing hours of operation. This would help avoid situations in which non-participants inadvertently trap liquidity, providing a more effective means of counterparty risk management, particularly in the payments space.

**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?**

An accompanying expansion of discount window service hours would provide liquidity to participating banks; however, as detailed below, it would neither address distortions in short-term funding and repo markets nor support normalization in the Fed's balance sheet. Furthermore, expanding discount window access without broadening the pool of participants would exacerbate longstanding moral hazard problems, incentivizing growth in bank balance sheets and potential excess risk-taking in the sector while not addressing the risks in payments. From a payments perspective, expanded discount window hours will not address the historical tendency for banks to hoard cash during periods of instability rather than intermediating with payments institutions. This, coupled with the general trend of increased flow of deposits from smaller depository institutions to G-SIBs, and the likely consolidation of regional banks, will further

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<sup>3</sup> Li, Y. and Li, Y., 2023. *Payment Risk and Bank Lending: The Tension between the Monetary and Financing Roles of Deposits*. Available at SSRN.

concentrate financial risks in smaller Fedwire participants seeking to utilize expanded Fedwire hours.

**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 (repo) market? Do you expect wholesale funding market activity to occur on weekends and holidays?**

Based on existing market practices, the expansion in Fedwire hours will likely lead to excess demand for reserves at the Fed driven in large part by the need to maintain sufficient liquidity for intraday settlements.<sup>4</sup> This can lead to increased variability of bank reserves and volatility in short-term funding markets due to the co-mingling of money market intermediation and credit intermediation. The September 2019 repo spike – in which the short-term repo rate jumped to 10 percent intraday and the Fed was forced to inject substantial liquidity – highlighted the risks of bank-based intermediation in short-term funding. Despite banks holding over \$1.4 trillion of reserves at the time, banks were unwilling to use the reserves to intermediate between cash-rich lenders and cash-strapped borrowers in the repo market.<sup>5</sup> This is in large part due to the complex risk profiles of banks that prevent effective use of reserves, making it inaccessible for the money market.

Expanded discount window access will not address this potential for reserve market distortions, and only settlement via alternative payment rails with separate floats can reduce the demand for reserves, making both banking and payments more resilient. Importantly, commercial banks stand to benefit from reducing their role in payments as this would enable them to redeploy their reserves towards other forms of intermediation and reduce their regulatory burden, such as the supplementary leverage ratio. By freeing up payment-related reserves, banks can also focus more on lending activities, which are central to their core business. In the face of systemically precarious institutions and the continued expansion of the Fed's balance sheet, unbundling payments from banks would more broadly serve to reduce risks and fortify the financial system. This reflects the fact that a bank's intermediation activities can harm its payment services in a way that directly disrupts businesses and consumers. Indeed, the most resonant concerns about the collapse of Silicon Valley Bank were the potential contagion effects and the fact that companies might not be able to meet payroll.

A less bank-intermediated repo market would also smooth out periodic funding rate spikes tied to bank window dressing activities. Fed account access for NBFIs would allow them to more effectively facilitate liquidity distribution to smaller institutions and cash borrowers by directly lending in the repo market rather than relying on bank-led balance sheet

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<sup>4</sup> Copeland, A., D. Duffie, and Y. Yang (2021). *Reserves were not so ample after all*. Staff Reports 974, Federal Reserve Bank of New York.

<sup>5</sup> Correa, R., Du, W. and Liao, G.Y., 2020. *US banks and global liquidity* (No. w27491). National Bureau of Economic Research.

intermediation between money market funds and repo borrowers. This would be particularly important in the likely event that wholesale funding markets continue operating solely during U.S. business hours.

Likewise, Fed master account access for payments institutions can play an important role in providing faster and more effective settlement and intermediation in the funding market, at the same time reducing the demand for reserves and improving intermediation of short-term funding that supports economic activities. As the 2019 repo spike highlighted, the distribution of liquidity matters as much as the total in contributing to market dislocations.<sup>6</sup>

Lastly, Fed master account access for payments institutions can reduce Fed balance sheet size and enhance monetary policy transmission. At the current size of \$8+ trillion, the Federal Reserve's footprint on the financial market is large with the Fed seeking a balance sheet normalization. However, the Fed balance sheet is limited in how much it can shrink due to effects it could have on the money market and short-term funding rates. The last balance sheet normalization attempt from 2018 to 2019 ended problematically with the short-term funding rate spiking to 10% intraday as liquidity demand for reserves became inelastic. Direct access to the Fed by NBFIs and adoption of the technology for real-time gross settlements could reduce several components of Fed liabilities and overall balance sheet size without disrupting the short-term funding market.

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<sup>6</sup> Afonso, G., Cipriani, M., Copeland, A.M., Kovner, A., La Spada, G. and Martin, A., 2020. *The market events of mid-september 2019*. FRB of New York Staff Report, (918).