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Ann Misback, Secretary,
Board of Governors of the Federal Reserve System,
20th Street and Constitution Avenue, N.W.
Washington, DC 20551.
VIA: regs.comments@federalreserve.gov

Re: Docket OP-1831 Expansion of Fedwire® Funds Service and National Settlement Service Operating Hours

Dear Federal Reserve:

In summary:

- I support the proposed expansion of Fedwire and NSS hours.
- Fedwire Securities Service (FSS) hours should be expanded as well to support shorter settlement cycles.
- The daily dinner break should be shortened and moved to later at night.
- Consider moving the daily dinner break to a weekend-only planned maintenance window.

¹ All opinions are strictly my own and do not necessarily represent those of Georgetown University or anyone else. I am a finance professor at Georgetown University with interests in financial markets, regulation, and technology. I served on the Fed's Faster Payments Task Force and the subsequent Governance Framework Formation Team. Over the years I have served as a Visiting Academic Fellow at the NASD, served on the boards of the EDGX and EDGA stock exchanges, served as Chair of the Nasdaq Economic Advisory Board, and performed consulting work for brokerage firms, stock exchanges, market makers, and law firms.

Background

The Fed is proposing to extend the operating hours of Fedwire and National Settlement Service (NSS) from their current Monday-Friday (except for holiday) schedule to an every day schedule. The proposal keeps the daily 7:00 pm to 9:00 ET Fedwire dinner break.

RIGHT ON!

This proposal to extend Fedwire and NSS operational days is an important step in improving the US payment system. Our global economy operates on a 24-7-365 basis. Delays in payments are an unnecessary friction on national and global commerce and represent a tax on the economy. For all of the reasons given in the release, I strongly support this move to modernize the US payment system.

Here is but one example of how the expanded operational hours will reduce frictions in the system. Our stock exchanges are open for business on some days such as Columbus Day, when Fedwire is closed. This means that stock trades that would normally settle on that day are delayed until the next day because of the unavailability of Fedwire to complete settlement in central bank money. Thus, two days of trading need to be settled on one day, leading to some additional frictions and thus expenses. Permitting financial institutions to make and receive Fedwire and NSS payments on a 365-day basis will be a great improvement.

Consider a shorter dinner break.

There are good technical reasons for continuing (at least for a while) to have a daily break. It gives our many antiquated banks time to run their antique COBOL-based daily batch systems. It also creates a maintenance window for the Fed and the industry to install and test system upgrades. Do we really need a two-hour dinner break? The Fed should strongly consider shortening the daily break to an hour or less. Such a shorter break could be phased in to give the industry enough warning time to upgrade their systems.

Move the dinner break to later at night.

The current Fedwire dinner break from 7:00pm to 9:00 PM occurs during a time when there is still substantial economic activity in the US. Indeed, it is from 4:00pm to 6:00pm in the Pacific time zone. Several US equity exchanges, including NYSE-ARCA, NYSE-American, Cboe, and Nasdaq, offer trading until 8:00 pm ET.

On May 28, 2024, the US market moved to T+1 settlement. After this improvement, it will make sense for the industry to eventually move to a “T+midnight” settlement. This creates a need for much more post-trade clearing and settlement activity to occur in the evening hours. Having the Fed shut down for two hours during this increasingly important time period makes no sense. Likewise, the expanded and more time-sensitive trading and settlement activity makes extended hours for the Fedwire Securities Service more beneficial.

The Fed should move the daily break to midnight Eastern Time or even later. This is late enough to avoid interference with US economic activity. It creates a clean break from one day to the next for accounting purposes. In terms of international synchronization, it is early enough that Europe is still asleep, and it roughly corresponds with the mid-day lull in Asian markets.

A later dinner break will also facilitate more same-day ACH windows. While FedNow may someday be the primary rail for retail payments, ACH will continue to be the cheap batch system for bulk payments for quite some time.² Having a later break would permit more same-day ACH windows, providing more operational and cost flexibility to users.

A later break will be particularly helpful to those living in the more western time zones, especially those on Pacific and Hawaii time.

Consider replacing the daily dinner break with a planned weekend maintenance window.

A planned break creates operational convenience for the system operators. Does it really need to be every day? The Fed should strongly consider replacing the daily break with a series of preplanned weekend maintenance windows. Eliminating breaks during the work week will reduce the frictions caused by system outages during the traditional business week.

Extend the trading days for Fedwire Securities Service.

The release asks for comment on whether to extend the trading of Fedwire Securities Service (FSS). FSS is an important link in the infrastructure for the transfer of US Treasury and other US government securities. US Treasuries are a financial product that we sell to the entire world. US taxpayers earn great rents by the global use of the dollar and US Treasury bonds as reliable safe assets. In order to maintain this valuable franchise, the US needs to make sure that this product is as convenient as possible. Extending the trading days to include nights, weekends, and US holidays will help US Treasuries to keep their market position.

Respectfully submitted,

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² The high price of FedNow's real-time payment services is an impediment to wider adoption. It is a mystery to me why FedNow charges 4.5 cents per payment while the European Central Bank's similar TIPS system only charges 0.2 eurocents. The Fed is charging more than 15 times as much as the ECB, which also has a cost recovery mandate similar to the Fed's. Is the Fed really 15 times more inefficient than the ECB?