

IA response to OP-1831 - Expansion of Fedwire Funds Service and National Settlement Service Operating Hours

The Investment Association (IA) champions UK investment management, a world-leading industry which helps millions of households save for the future while supporting businesses and economic growth in the UK and abroad. Our 250 members range from smaller, specialist UK firms to European and global investment managers with a UK base. Collectively, they manage £8.8 trillion for savers and institutions, such as pension schemes and insurance companies, in the UK and beyond. 48% of this is for overseas clients. The UK asset management industry is the largest in Europe and the second largest globally.

We welcome the opportunity to respond to the Federal Reserve proposal to increase cash settlement operating hours to include weekends and bank holidays.

Cash settlement, and by extension foreign exchange, is managed to ensure sufficient reserves are in place to satisfy any liabilities. In the asset management industry and for investment more generally, a particular use case is around global security purchase based off a local investor subscription or purchase, with bank holidays in the delivering currency often causing funding gaps.

For example, if a US investor buys an Australian stock to settle next day (which coincides with a US bank holiday), the investor may be unable to settle a USDAUD FX in time to receive the AUD necessary to settle the transaction. If all countries extend opening hours to include bank holidays this issue will be mitigated.

For this reason, we support the Federal Reserve proposal to increase opening hours and encourage the Federal Reserve to champion this amongst their peer central banks.

We ask the Federal Reserve to ensure that USD is CLS settlement eligible on the new public holiday settlement days brought into scope, such that firms can benefit from PVP netting risk reduction.