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September 6, 2024

### VIA ELECTRONIC SUBMISSION

Ann E. Misback, Secretary  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue, N.W.  
Washington, D.C. 20551

### **Re: Expansion of Fedwire Funds Service and National Settlement Service Operating Hours (Federal Reserve Board Docket No. OP-1831)**

The Institute of International Bankers (the “IIB”) appreciates the opportunity to submit this letter in response to the request for comment issued by the Board of Governors of the Federal Reserve System (the “FRB”) on its Expansion of the Fedwire Funds Service (“Fedwire”) and National Settlement Service (“NSS” and together with Fedwire, the “Systems”) Operating Hours<sup>1</sup> (the “Proposal”).

The IIB represents internationally headquartered financial institutions from over 35 countries around the world doing business in the United States. The IIB’s members consist principally of international banks that operate branches, agencies, bank subsidiaries, and broker-dealer subsidiaries in the United States. The U.S. operations of foreign banking organizations (“FBOs”) are an important source of credit for U.S. borrowers. FBOs comprise the majority of U.S. primary dealers and enhance the depth and liquidity of U.S. financial markets. FBOs also contribute greatly to the U.S. economy through the direct employment of U.S. citizens and permanent residents, as well as through other operating and capital expenditures.

In furtherance of the G20 leaders’ agenda to promote cross-jurisdictional alignment, our members recognize the global significance and importance of expanding operating hours to “speed up cross-border payments, improve liquidity management, and reduce settlement risk,”<sup>2</sup> and appreciate the FRB’s consideration of this matter.

However, for the reasons discussed herein, our members are concerned about the implications of a transition to a full 22x7x365 model at this time. Our members also

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<sup>1</sup> Expansion of Fedwire® Funds Service and National Settlement Service Operating Hours, 89 Fed. Reg. 39613 (May 9, 2024), available [here](#).

<sup>2</sup> 89 Fed. Reg. 39615.

believe there are certain provisions in the Proposal that should be clarified to assist participants in implementing and operationalizing the expanded hours in a manner to avoid customer confusion, ensure the integrity and availability of participants' systems, and mitigate liquidity risk—matters that could impact even those opting out of the expanded hours. In particular, as we discuss in more detail below, the IIB requests that the FRB consider the following in issuing a final rule:

I. The FRB should consider first expanding operating hours to 22x5x365 as an interim step towards a full 22x7x365 model to reduce liquidity risk, mitigate costs, and provide participants with an opportunity to better gauge demand for further expanded hours for large-value real time payments.

II. The FRB should preserve the optionality model, and the FRB should establish a public directory of participant institutions and their respective operating hours to ensure awareness of whether a beneficiary bank will post incoming transfers during expanded hours.

III. The FRB should provide further guidance and clarification regarding the impact of expanded hours on participants' obligations under the FRB's Regulation CC and related accounting matters.

IV. The FRB should ensure that participants are afforded sufficient time to perform systems maintenance and updates in a manner that is as least disruptive as possible to other participants' and their customers.

V. The FRB should ensure that participants have access to appropriate sources of liquidity during the expanded hours, such as by expanding the hours of access to the discount window and/or by alleviating the penalties for relying on other overnight sources of liquidity as described in the FRB's Payment Systems Risk Policy (the "PSR Policy").

VI. The FRB should expressly authorize participants to undertake appropriate liquidity management measures with respect to participation (e.g., transaction limits, increased buffers or clawbacks), but participants should be afforded the ultimate discretion for utilizing such measures.

Furthermore, as discussed in more detail throughout this letter, our members would like to express their appreciation for the FRB's continued support of the optionality model. As FBOs, demand for our members' real time fund transfer services arises primarily when markets are open. As a result, many of our members question whether there would be sufficient demand for such services over the weekend to justify the costs associated with its development and support, particularly given the availability of the FedNow Service ("FedNow"), and thus appreciate that they would not be obligated to do so.

**I. The FRB should consider first expanding operating hours to 22x5x365 as an interim step towards a full 22x7x365 model to reduce liquidity risk, mitigate costs, and provide participants with an opportunity to better gauge demand for further expanded hours for large-value real time payments.**

As an initial matter, we request that the FRB consider transitioning to a 22x5x365 model, which would significantly reduce the duration of any mismatch between the Systems' operating hours and the access to the discount window compared to the current proposed 22x7x365 model. This would result in increased expansion of hours to include holidays—which would better facilitate U.S. dollar clearing on days when foreign markets are open, even if U.S. markets are closed—but would minimize the need for increased liquidity and staffing on weekends. This would also provide participants and the FRB with more time to assess the demand for real time transfers over the weekend that exceed the limits of FedNow, which could also help inform liquidity needs.

**II. The FRB should preserve the optionality model, and the FRB should establish a public directory of participant institutions and their respective operating hours to ensure awareness of whether a beneficiary bank will post incoming transfers during expanded hours.**

Our members appreciate the FRB's continued flexibility in affording participants the ability to determine their own operating hours, including by electing *not* to participate in the expanded hours.

Providing support for the expanded hours would necessarily impose substantial costs on institutions, not only to build technological capabilities, but to provide appropriate staffing and support as well. As FBOs, a substantial majority of our members do not engage in retail business, which is where we expect much of the demand for weekend hours to arise. Rather, demand for our members' real time fund transfer services arises primarily when markets are open. As a result, many of our members question whether there would be sufficient demand for such expanded services over the weekend to justify the associated costs, and thus appreciate that such participation would be at their discretion.

However, we recognize that the optional participation model presents increased risk of customer confusion regarding when funds will actually post to a beneficiary's account. Accordingly, we recommend that the FRB establish a public directory that contains a full list of participants in Fedwire and NSS—including banks that clear through a correspondent relationship—similar to the participant lists currently published for

Fedwire<sup>3</sup> and FedNow,<sup>4</sup> and include their hours of operation.<sup>5</sup> Institutions could themselves consult—or direct their customers to consult—the directory to inform their understanding of when funds transfers may be completed and plan their business accordingly. Additionally, to better manage the potential mismatch of hours, we support the FRB’s development of an application programming interface (“API”) that banks could integrate with their systems to automatically reject transactions (or place funds in a waiting room) during the designated beneficiary bank’s “offline” hours. Such an API could also support liquidity management, as discussed in Section VI below.

### **III. The FRB should provide further guidance and clarification regarding the impact of expanded hours on participants’ obligations under the FRB’s Regulation CC and related accounting matters.**

Our members request that the FRB clarify the extent to which the Proposal would impact banks’ obligations under the FRB’s Regulation CC. Many of our members use accounting software that post transactions to customer accounts (and thus begin to pay interest) based on the current definitions and funds availability requirements in Regulation CC. For example, many forms of deposits are required to be made available in a customer’s account one “business day” after the “banking day” in which those funds were received by the bank. Currently, “business day” is defined as Mondays through Fridays other than certain federal holidays, and “banking day” is defined as “that part of any business day on which an office of a bank is open to the public for carrying on substantially all of its banking functions.”<sup>6</sup> Accordingly, our members request confirmation that the definition of “business day” as set forth in Regulation CC will continue to exclude those certain federal holidays and weekends that would be encompassed by the expanded hours, as well as confirmation that participating in expanded hours does not constitute being “open to the public for carrying on substantially all of its banking functions” for the purposes of the definition of “banking day.”

Our members similarly request further guidance from the FRB regarding the extent to which the expansion of operating hours would impact the FRB’s own accounting practices and related services. In particular, we request that the FRB continue to afford participants discretion in selecting an accounting regime, as it did in its adoption of FedNow.<sup>7</sup>

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<sup>3</sup> The list of Fedwire participants can be found [here](#).

<sup>4</sup> The list of FedNow Service participants can be found [here](#).

<sup>5</sup> 89 Fed. Reg. at 39619.

<sup>6</sup> 12 CFR § 229.2(f) (defining “banking day”), (g) (defining “business day”).

<sup>7</sup> *Service Details on Federal Reserve Actions to Support Interbank Settlement of Instant Payments*, 85 Fed. Reg. at 48531 (Aug. 11, 2020).

**IV. The FRB should ensure that participants are afforded sufficient time to perform systems maintenance and updates in a manner that is as least disruptive as possible to other participants and their customers.**

While our members appreciate the FRB’s recognition that adoption of a full 24x7x365 model would not be feasible at this time, the two hours of downtime between the close and open of the Systems in the proposed 22x7x365 model would not afford sufficient “downtime to accommodate system changes and other operational activities.”<sup>8</sup>

Our members currently rely on both the downtime between the close and open of the Systems, as well as the downtime on the weekends, to implement system upgrades and conduct maintenance, including operational and security upgrades. While the daily two-hour downtime period may be sufficient in some instances, it is not unusual for such updates to require eight to twelve hours of downtime.

Accordingly, we request that the FRB provide further guidance regarding alternatives for when participants should schedule and communicate their scheduled downtimes for systems upgrades and other activities in the absence of the weekend downtime. Such alternatives could include adopting a 22x5x365 model rather than the 22x7x365 model, which would provide participants with regular opportunities to engage in such activities. Alternatively, in the spirit of harmonization with ISO 20022,<sup>9</sup> our members recommend that the FRB set certain times every month for all participants to be offline and conduct any necessary maintenance and system upgrades. Additionally, the FRB should establish a process for participants to provide advance notice in the event of any additional offline hours for systems maintenance.

Regardless of how the FRB approaches the need for regular opportunities to make scheduled updates to assist institutions in establishing and managing customer expectations, the FRB should consider including on the public directory discussed in Section II the hours certain institutions will be offline conducting maintenance.

**V. The FRB should ensure that participants have access to appropriate sources of liquidity during the expanded hours, such as by expanding the hours of access to the discount window and/or by alleviating the penalties for relying on other overnight sources of liquidity as described in the FRB’s Payment Systems Risk Policy (the “PSR Policy”).**

Absent the interim 22x5x365 model described in Section I above, and particularly in the event that the FRB declines to continue offering participants the optionality discussed in Section II above, the FRB should ensure that participants have access to sufficient

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<sup>8</sup> 89 Fed. Reg. at 39615.

<sup>9</sup> New Message Format for the Fedwire® Funds Service, 86 Fed. Reg. 55600 (Oct. 6, 2021), available [here](#).

sources of liquidity, whether through the expansion of the discount window or making other sources of liquidity less punitive.

Under the Proposal, participants would not have access to the discount window during overnight hours, on weekends, and on holidays. While we understand that the FRB previously declined to expand the discount window's operating hours when launching FedNow, the magnitude of transactions eligible for processing through the Systems are exponentially higher than those eligible for processing through FedNow, and thus present significantly greater liquidity risk to participants.<sup>10</sup> Accordingly, we support the FRB's consideration of expanding the hours of access to the discount window.

Our members further request that the FRB consider how a lack of access to the discount window might impact participants' use of other sources of liquidity, such as intraday credit, as contemplated by the PSR Policy. While our members understand that the FRB must manage its own credit risk under the PSR Policy (such as by imposing fees for failing to timely extinguish daylight overdrafts), our members request that the FRB alleviate some of the penalties of overnight extensions of credit on days when access to the discount window is not available so as not to penalize participants that elect to process transactions during the expanded hours.

**VI. The FRB should expressly authorize participants to undertake appropriate liquidity management measures with respect to participation (e.g., transaction limits, increased buffers or clawbacks), but participants should be afforded the ultimate discretion for utilizing such measures.**

As discussed in Sections I and V above, the increase in the operating hours of the Systems, together with the optional participation model, will likely present greater liquidity risks to participants. As the FRB notes in the Proposal, operating during weekends and holidays may “exacerbate liquidity issues for a bank in crisis,” which could otherwise use the downtime on the weekends to implement strategic measures to prevent contagion to other participants.<sup>11</sup> The FRB suggests in the Proposal that participants can use the two-hour period each day in which they are not operating under the 22x7x365 model to implement liquidity and risk management measures to address outflows. However, without expanded access to other sources of liquidity on weekends and holidays to supplement the liquidity of participants who are experiencing rapid deposit outflows, a two-hour window will not be at all sufficient to implement such liquidity and risk management measures.

As such, in addition to ensuring participants have access to other sources of liquidity, as discussed in Section V above, our members request that the FRB establish and authorize certain measures for participants to use at their discretion to appropriately manage their

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<sup>10</sup> *Federal Reserve Announces FedNow<sup>SM</sup> Service Pricing Approach, Credit Transfer Limit*, Federal Reserve (Jan.27, 2022), available [here](#).

<sup>11</sup> 89 Fed. Reg. at 39617.

risks. Participants in expanded hours should be expressly permitted to impose transaction limits or otherwise adjust their liquidity buffers in accordance with their own internal liquidity risk management programs, which may reduce dependence on other sources of liquidity. To address this, the API discussed in Section II above could also be used to aid liquidity management by enabling banks to clearly identify transfer requests that are pending during a beneficiary bank's offline hours, and thus both track their levels of outgoing trapped liquidity and provide a mechanism to claw back such funds in the event of an immediate liquidity need.

In any case, our members believe that participants should retain ultimate discretion on whether and how to utilize the different liquidity sources and tools available to them, to ensure alignment with the participant's overall strategy and liquidity planning.

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The IIB appreciates the opportunity to submit these comments. We look forward to engaging with the FRB on the expansion of the operating hours of the Systems.

Sincerely,



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