

Proposal: 1831 Expansion of Fedwire Funds Service and National Settlement Service Operating Hours

Description:

Comment ID: 160578

From: Bankers' Bank of Kansas, Daniel L. Hayden

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Subject: 1831 Expansion of Fedwire Funds Service and National Settlement Service Operating Hours

Comments:

NONCONFIDENTIAL // EXTERNAL

Comment Letter Docket No. OP-1831

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

I am Daniel Hayden, Vice President Payments and Deposits Manager with Bankers' Bank of Kansas, serving 184 community banks in the State of Kansas. In 2023 we processed of 147,000 wires for just over \$551 billion dollars, in checks we processed over 15,000,000 checks for over \$72 billion dollars, in ACH we processed over 28,000,000 transactions totaling over \$61 billion dollars for community banks.

Thank you for the opportunity to provide input to the Board of Governors of the Federal Reserve System (Board) Request for Comment (RFC) on Docket No. OP-1831 regarding the change of Fedwire Funds Service and the National Settlement Service (NSS) to operating hours 22 hours a day, 7 days per week, every day of the year (22x7x365).

I would like to share our thoughts to the questions you have asked on the proposed expansion of Fedwire Funds Service and the National Settlement Service (NSS) to operating hours 22 hours a day, 7 days per week, every day of the year (22x7x365) and highlight some of our concerns.

Questions posed by the Board:

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?

Speaking specifically to the benefits to our institution: As a bankers' bank our mission is to help community banks remain competitive and relevant. In many cases, community banks can offer products and services they may not be able to afford otherwise by taking advantage of the scale a bankers' bank can create. We continually seek ways to meet the needs of respondent banks and their customers. If there was significant demand for extended operating hours, a bankers' bank would enthusiastically implement and offer access to extended hour services, which may enhance a respondent bank's ability to enhance their customer experience and generate additional revenue by means of higher fees for extended hour transactions. Likewise, a banker's bank would generate more revenue from higher fees. However, profitability is less certain and would depend on several items, primarily by transaction volumes. At this writing, we have several concerns: (1) the lack of data illustrating the demand for the extended hours. Without sufficient use data, the justification of resource expenditures - technology investments, implementation, servicing, compliance and so forth - cannot be quantified and, thus, justified. (2) The magnitude of such a significant change to Fedwire Funds Service and the NSS within a short, two-year timeframe is daunting. It will take precedent over other strategic initiatives, constrain current resources and likely require additional resources, and overlap with efforts

to fully implement and promote FedNow and RTP services. (3) The service is optional, but the expansion of NSS opens the possibility for ACH to expand its service hours, which NACHA has already stated as their intent. Because ACH rules involve timeframes, which are triggered upon receipt of transactions, the option to participate is eliminated.

1. 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?

The correlation between increased service hours and increased activity is assumed and, while activity may shift over time, our respondent banks have not indicated significant consumer demand for expanded hours. Initially, it could cause the same number of transactions to be spread across an expanded timeline. Further, demand for expanded operating hours for domestic transactions can likely be met through FedNow and RTP. Again, it would be beneficial if the Board could provide data to support the benefits and the benefactors of this change beyond cross-border transactions. While understandably desirable, the urgency for implementation is unclear given that the instant payment rails are still emerging and may meet the needs for expanded hours. We anticipate demand and adoption will be low and slow from the respondent banks we serve with a positive return on investment pushed well into the future. The only benefit we can identify at this point is the ability to move funds via the Fedwire Funds Service to access our Master Account with the Fed, which will allow us to access after-hour liquidity needs associated with Fed Now and RTP.

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

The expanded hours of Fedwire Funds Service and the NSS may provide opportunity in the private sector innovation but may also perpetuate the 'solution looking for a need' scenario. And, while extended hours are possibly inevitable, a two-year implementation time frame seems to be arbitrary rather than driven by demand. A five-year implementation time would allow focus to remain on full adoption and usage of the FedNow and RTP rails, during which time gaps will be identified and solutions can be better targeted.

1. 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?

The FedNow services and the Fedwire Funds Service would compete in terms of use cases; however, with some of the automation that has been developed to support FedNow it is feasible that this may allow some users to prefer this method. This is complicated further by the potential expansion of NSS and ACH via NACHA. If ACH expands its services, then it would be directly competing against the new instant pay services that have been heavily invested in. The board should consider if it wants to compete with the other services or complement the other services such as FedNow and RTP.

1. 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?

An interim expansion of operating hours does not truly benefit us, to support Fedwire Funds Service and the NSS, we will have to build our processes to meet these needs. I believe providing more data and research to the benefit and expected volume of growth in activity would be of value to us. Additionally, the board should be more concise in the expansion of services.

1. 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)?

As stated previously, expanding the timeframe to at least a five-year implementation window would be of greater benefit. This would allow us to research and plan out all technological automation and staffing needs that would be necessary. It would also allow us the opportunity to analyze any revenue that could be achieved to offset the increased operating expenses that this will incur.

1. 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?

Bankers' Bank of Kansas as are all Bankers' Banks are here to serve the needs of community banks and if the Board chooses to adopt the proposal, we will meet those needs of the banks we serve. Granting us more time to adequately prepare to meet those needs would benefit all parties.

1. 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?

We are unable to define the costs at this time as we need to understand the full ramifications of this expansion. This proposal focuses just on Fedwire Funds Service and NSS, but the reality is that this is the beginning of expanding additional services. For example NACHA has already publicly endorsed this expansion and signaled their intent to expand their services similarly. To truly understand the cost of this expansion we need to understand all the services that will be expanding. Automating processes and implementing technology to support this particular service takes time and money, any further expansion of services will be similar in scope and will cost more if they have to be developed separately. In addition, the expansion of this service could be automated to limit the expansion and need of human resources. If ACH services expand, there are timelines that require human intervention.

It would be beneficial if the Board would collect more data in advance of the proposal and expand the timeline.

1. 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)?

Implementing Fedwire Funds Service and the NSS, larger institutions would be able to adapt easier to this change as they have the resources in terms of monetary needs, technical needs, and human needs to meet the demand and timeline of this proposal. Smaller institutions will have more of a challenge to meet this need and be competitive.

1. 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?

This proposal focuses only on Fedwire Funds Service and NSS, however, if demand should occur financial institutions may require borrowing sources to cover their needs. This expansion meets the operational needs of moving funds but it does not take into account the liquidity needs.

1. 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 hour's 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?

The ability to opt out is a very good thing in this proposal for Fedwire Funds Service. It does allow institutions the ability to choose if they enter into expanded hours and does make the two year deadline more appealing. The direct risk to financial institutions as the proposal is written is their ability to stay competitive. If they opt out it does put them at a competitive disadvantage to larger institutions that can meet the needs. By expanding the NSS the ability to opt out is negated as it allows NACHA to expand ACH. ACH has specific timeframes that would not allow receivers the ability to opt out. It should also be noted that by some institutions opting out it does create confusion on when the timeframe for returns will start and who they will be based on. Will it be the institution that opted in or out? The board should consider a way to clearly define how this will be handled in the proposal.

1. 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?

Liquidity will be an important aspect for the banks we serve, particularly in the extended hours of weekends and holidays if we implement Fedwire Funds Service and the NSS.

1. 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?

We would anticipate the need for wholesale funding to help support activity, particularly if volume increases. The Board should consider the need to ensure proper funding and liquidity sources to support Fedwire Funds Service and the NSS.

1. 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?

It is inevitable that our markets will need to adapt and grow to stay competitive. As previously stated, the rest of the financial world has moved to a 24/7/365 financial environment and the growth needs to be strategic. We believe it is important that the Board consider the importance of meeting the entire needs from funding, liquidity, and operational needs. It is also imperative to offer ample time for development to meet these needs.

1. 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.

The board needs to consider how all those that support the markets will ensure system maintenance is maintained and processed in an environment that operates 22/7/365. It is unlikely that two hours of maintenance to allow all vendors time to maintain the proper security and technological needs will be sufficient.

Summation and closing:

In summary, Bankers' Bank of Kansas exists to support the community banks of Kansas in any capacity we can. If you adopt the expanded hours of Fedwire Funds Service and the National Settlement Service (NSS) to operating 22 hours a day, 7 days per week, every day of the year

(22x7x365) Bankers' Bank of Kansas will support it. The expansion of operating hours is inevitable with the need to stay competitive with the global markets.

Initially it would be anticipated that this service will increase our costs and at this time the volume of activity is not anticipated to be very large. The Board has provided no data to show that there is an expected growth factor over the seven day period. It would be a benefit for us if the Board were clearer about what services are expanding and provided data on what expected activity or growth the change is expected to produce. The expansion of NSS will ultimately result in expansion of ACH services but it is not clear what financial institutions should expect with this proposal.

The board should clarify if the goal of this expansion is to compete with instant payment services or compliment instant payment services. Under the current proposal, the result would be competing with those instant payment rails, which are still in their infancy stage in terms of adoption and usage.

The proposal would have an effective implementation date of March 10, 2027. The service is optional regarding the Fedwire Funds Service and so it does allow for time to prepare but due to the complexity of expanding physical and human resources to support a process with limited demand extending this implementation would be beneficial to allow for adequate development of automation and staffing to support the service. Additionally, extending the implementation timeline to at least five years would also help other third parties such as banks' core providers time to adequately support posting of Fedwire Funds Service transactions.

The Board should look at all the services that banks will need and the effects as a whole and determine an adequate plan that allows financial institutions the opportunity to make an informed decision for implementation.

Thank you for the opportunity to comment,

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