

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 Funds Service and National Settlement Service Operating Hours

Dear Ms. Misback,

Thank you for the opportunity to provide input on the Board of Governors of the Federal Reserve System (Board) Request for Comment (RFC) regarding the Expansion of Fedwire[®] Funds Service) and National Settlement Service (NSS) Operating Hours.¹ The American Bankers Association² (Association) shares the desire of the Board for the United States to operate an efficient payment system for the benefit of the country and its citizens.

The proposal would extend the normal operating hours of Fedwire[®] Funds Service and NSS from the conventional five-day work week, excluding weekends and holidays, to be live 365 days a year. This is a substantial change that, as proposed, would enable financial institutions to opt in to provide wire services every day of the year. Certain financial institutions may explore the opportunity of extending wire services for their customers. Those financial institutions that do not participate would post any incoming wires at the beginning of the next conventional business day. However, it is important to note this could put some financial institutions at a competitive disadvantage if they opt not to offer expanded service hours.

The Association also notes the Board is not currently considering an expansion of operating hours for the Fedwire[®] Securities Service (“FSS”) and supports this stance. Any potential future change in stance from the Board with respect to FSS operating hours would require significant adjustments across the industry and a separate and thorough public consultation process.

Expanding the NSS would also enable private clearing arrangements, such as ACH operators and check clearing houses, to do the same. The staffing expense, procedural, and risk management changes at participating banks would be significant if ACH operations were extended. Due to the ubiquitous nature of ACH, financial institutions would be at a competitive disadvantage if they do not offer expanded hours and at a financial disadvantage if they do. The additional costs of operating on weekends and holidays could foreseeably lead to accelerated consolidation in the industry among smaller financial institutions due to the increased costs of participation.

¹ 89 Fed. Reg. 39,613 (May 9, 2024); 89 Fed. Reg. 53,425 (June 26, 2024) (extending the comment period).

² The American Bankers Association is the voice of the nation’s \$24.0 trillion banking industry, which is composed of small, regional and large banks that together employ approximately 2.1 million people, safeguard \$19 trillion in deposits and extend \$12.4 trillion in loans.

As with all significant proposed changes to the payment system, the industry must weigh the costs of making these improvements with the benefits that they provide. An accurate analysis of this proposal's costs and benefits is challenging because the proposal does not contain any projections of transaction volumes that may accompany this change. There is also uncertainty about the effect this proposal will have on the two payment rails that already operate 24/7/365: The Clearing House Real Time Payments® (RTP) system and the FedNow Service (FedNow) operated by the Federal Reserve.

Making changes of this magnitude requires a comprehensive review of data regarding projected transaction volumes, potential use cases, downstream effects on other payment rails, and expected costs to participating financial institutions. Unfortunately, this proposal lacks the detailed information needed to make an informed decision about the costs and benefits of implementation. There is also the concern that this proposal will have a significant impact on community banks and others that have leaner resources and more hurdles to overcome (whether vendor, personnel or technology and core platform related) in order to participate in the extended hours and may not result in high enough demand to support associated costs.

At a minimum, the Board should consider these changes to Fedwire® Funds Service and NSS separately for wire services and ACH. The RFC does not address ACH services directly, only noting that ACH operators could take advantage of the extended NSS hours to operate seven days a week, but this would be the most significant operational and expensive change for most banks. Changing the operating hours for either wire services or for ACH services is a significant undertaking. Combining them into one change would strain the resources of most financial institutions. The Board should not downplay the significance of making NSS available for purposes of extending the hours of ACH operations even if it does not make the actual decision. Making the decision possible increases risks to community banks.

Allowing participation in the expanded wire hours to be an option provides a path to avoid some of the risks associated with expanded hours discussed herein; however, this option also increases certain risks to community banks and raises the barrier of entry into this market. Participation in the expanded hours will likely put a strain on community banks and their resources, but the failure to participate may result in an unnecessary actual or perceived gap in services offered relative to larger banks and be detrimental to consumers and businesses that lack access to large banks.

In broad terms, this proposal is very ambitious in terms of the expense to be borne by financial institutions and very uncertain regarding the benefits to the industry. There are existing payment services that can process most of the domestic transactions on weekends and holidays, and demand for even that has not been significant. FedNow has over 900 participating financial institutions able to receive payments 24/7/365, but very few have opted to send transactions because they don't see the demand from their customers to offer it. The Clearing House Real Time Payments network is also an option for financial institutions that want to send payments on weekends and holidays allowing transactions of up to \$1 million.

The Association has three broad recommendations regarding this proposal:

1. We support this expansion of operating hours to Fedwire® Funds Service transactions.
 - a. Launch this expansion no earlier than March 2028.
 - b. Provide the industry with data on projected volumes for these expanded Fedwire® Funds Service operating hours to enable them to make an informed decision regarding participation.
2. Consider the expansion of NSS operating hours with respect to extending ACH operating hours in a separate proposal.
 - a. Provide data supporting the recommendation.
 - b. Set an implementation date for any ACH extension after the Fedwire® Funds Service implementation.
3. Prohibit the expansion of NSS for submitting settlement files to facilitate check clearing arrangements on weekends and holidays.

Scope of the Proposal

The proposal would extend the current operating hours of Fedwire® Funds Service and NSS to include weekends and holidays. On any business day, consistent with current operating hours, Fedwire Funds Service would be open 22 hours per day and NSS 21 ½ hours per day. Expanding NSS would enable, but not mandate, ACH operators and check clearing houses to extend operating hours.

Wires

Extending the operating hours for Fedwire® Funds Service would require a significant commitment of resources for the financial institutions that choose that option. This would require additional staff resources in operations, compliance, customer service, anti-terrorist and money laundering surveillance, and more. Financial institutions that process a large number of wires may be able to determine if the additional hours of operating time are worth the expense of providing the service. This may include financial institutions that process many cross-border wires, as many domestic transactions could be processed by the existing FedNow and RTP services. This likely will be a small number of financial institutions. Financial institutions that process few cross-border wires may choose to opt out of the service and post the transactions on the next conventional business day without undergoing the expense of staffing or suffering competitive injury.

Extending the operating hours of NSS is needed to enable private wire operators to provide backup services to Fedwire® Funds Service. NSS should be enabled solely for this purpose.

The Board should consider an effective date no sooner than March 2028, only when there will be a concentration of financial institutions offering the service, not a predetermined fixed date. Launching with just a few financial institutions capable of sending and receiving to each other would not be efficient for the Federal Reserve or the industry. This will require extensive industry consultation to establish what criterium must be met to define a “critical mass” of initial participants to facilitate transactions on weekends and holidays.

We support the ability of participants to provide these services during limited time windows such as being open from noon to six on Saturdays and Sundays. Or, open for 22 hours on Saturday and closed on Sunday. This flexibility makes the proposal more attractive for several reasons. Banks may see the benefit of being open on one day but not the other with corresponding savings in staffing expenses. This would also provide more time for banks to conduct system maintenance or security upgrades. Increasing the flexibility of participation will increase the number of banks participating.

ACH

The inclusion of NSS as an enabler of ACH services in this proposal is most concerning. As noted in the Background section of the proposal, NSS allows for multilateral settlement that is final and irrevocable for private-sector ACH, check clearing houses, and securities settlement systems. Extending the hours for ACH would demand a significant increase in resources and expenses for financial institutions. The ACH network has a broader reach into the banking industry than wires. While the majority of individuals may only send or receive a wire a few times in their lifetime, almost all payroll payments are made via Direct Deposit and a large number of consumer bills are paid via ACH credit and debit transactions. This would suggest that many financial institutions would feel the competitive pressure to absorb a very large increase in operating costs to maintain customer service levels while receiving an unknown benefit. This pressure to participate will lead to increased expenses without providing offsetting revenues, increasing consolidation amongst banks of all sizes with the smaller institutions being more vulnerable. To inform its policy determination, the Board needs to understand that the expenses are much greater than just staffing a skeleton crew of ACH operations personnel.

The Board should also consider the effect the proposal will have when paydays occur on the weekends. The current industry convention is to pay “early” on Friday. If the proposal were enacted as drafted, these payments would be paid on the correct date, Saturday or Sunday.

The Board should consider the expansion of ACH operating hours in a separate rulemaking given the impact it will have on all financial institutions. It would be helpful if there were data associated with projected volumes. At this time, it appears that enabling extended ACH would simply spread five days of volume over seven days, increasing costs with no corresponding increase in revenue.

Checks

The reference in the proposal to the potential of expanding private check-clearing services is even more disturbing. The industry has worked for years to reduce the number of paper checks in favor of electronic transactions. Check fraud has increased tremendously in recent years subjecting financial institutions and customers to large losses.³ Paper checks are stolen from the mail and washed and altered, or simply

³ See, e.g., FinCEN Alert on Nationwide Surge in Mail Theft-Related Check Fraud Schemes Targeting the U.S. Mail, February 27, 2023, available at <https://www.fincen.gov/news/news-releases/fincen-alert-nationwide-surge-mail-theft-related-check-fraud-schemes-targeting>; Why is check fraud suddenly rampant?, Mike Timoney, Federal Reserve Bank of Boston, August 23, 2023, available at <https://www.bostonfed.org/news-and-events/news/2023/08/check-fraud-rampant-mike-timoney-column-fraud-awareness-key-to-slowng-surge.aspx>.

counterfeited. Investigating these events is costly and time-consuming. Checks are expensive to process when the process works correctly, and the costs of fraud are huge and increasing.

The Board should not take any action to prop up paper check processing, additional check processing hours should be excluded from the policy consideration, and efforts should be focused on decreasing paper check usage. NSS should not be made available for the purposes of clearing checks on weekends and holidays.

Transaction Volumes

It would be beneficial for the Board to provide volume projections for the number of wires and ACH it expects will be processed during these extended hours. It would be valuable to learn of any use cases that would increase the volume of wires and ACH. Or would the same number of transactions be processed, but instead of being spread over five days per week, there would be lower volumes spread over seven days with Monday volume dropping significantly? If the volume remains static, but the costs of processing them rise significantly due to staffing a new seven-day work week, that would influence every financial institution's decision whether to opt for the service or not. The lower volume and slow ramp up experienced by RTP over the past seven years and the low number of financial institutions originating FedNow transactions suggest that there is no pent-up volume that would be released by the change.

The Association recommends:

1. The Board provide data projections on wire transactions, with particular attention on whether "new" transactions will be generated or if the volume will be static and distributed over additional operating days.
2. The Board provides data projections on ACH transactions in a separate proposal, with particular attention on whether "new" transactions will be generated or if the volume will be static and distributed over additional operating days.

FedNow and RTP

There are currently two payment rails that process instant payments 24/7/365. Participating in them is voluntary, each financial institution decides if they should participate as senders and/or receivers based on customer demand. Transactions currently are capped at \$500 thousand for FedNow and \$1 million for RTP. Both of these rails are limited to domestic transactions only with no cross-border capability at this time.

Financial institutions that have determined there is customer demand for 24/7/365 transactions have the option of processing lower value domestic transactions with these rails. The introduction of 22/7/365 Fedwire® Funds Service could meet unmet demand for cross-border transactions, large value transactions, and correspondent banking while many domestic transactions could be covered by FedNow and RTP systems.

The effect of increasing the operating hours for ACH services would have an effect on these instant payment services that currently operate on weekends and holidays.

The Association recommends:

1. The Board should evaluate the potential effect of expanding Fedwire® Funds Service operating hours on FedNow and RTP.
2. The Board should evaluate, in a separate proposal, the potential effect of expanding ACH operating hours on FedNow and RTP.

Operational Challenges, Risks and Considerations

Several risks associated with the expanded operating hours pertain to the need to expand personnel and implement additional operational, risk management, and technology controls in line with the expanded hours of operation. These risks are present and impact not only financial institutions, but their vendors providing various operational and core system platforms and services, as well as fraud mitigation, monitoring, and BSA/AML-related monitoring and services.

The expansion of operating hours would necessitate the hiring of additional personnel, by both financial institutions and their vendors. Key controls are established within financial institutions to mitigate the risk of executing fraudulent transactions. These controls commonly include activities such as account reviews and callbacks, and are dependent upon not only operations personnel, but also the availability of relationship managers and other personnel familiar with customer activities. Expanded operating hours will also trigger the need to expand the use of fraud and compliance risk mitigation practices that monitor customer transactions during the expanded hours. This will also trigger the need to hire additional personnel.

While this additional personnel need will impact all financial institutions, it may more drastically impact community banks that employ personnel from their local communities where weekend staffing may be unavailable. To meet staffing requirements, financial institutions may need to create and fill numerous additional positions to support expanded operating hours. This personnel issue may extend to vendors that support these financial institutions. With expanded operating hours, there will not be the luxury of troubleshooting or addressing concerns within a queue overnight. Without downtime, financial institutions that elect to provide weekend and holiday Fedwire Funds Services, and potentially some of their vendors, will need to hire the necessary personnel to address all situations in real time. This can be more challenging for community banks or other financial institutions that due to their size or location, have less access to vendors or qualified local personnel. In order to address personnel issues, particularly for undesirable working hours on nights, weekends, and holidays, financial institutions may be forced to consider offshore solutions, which increases risk profiles.

While it is difficult to forecast the additional resources that may be needed without knowing specific requirements, it is estimated that personnel in affected areas (i.e., operations and treasury) may increase

by approximately 40%, depending on the structure of the financial institution and functions that are outsourced.

Further, it is anticipated that financial institutions that choose to utilize the expanded hours of operation will, at a minimum, expend significant time, effort and resources to do so. Consideration should be given to opportunity costs given that time, effort and resources will necessarily have to be diverted from other projects and enhancements.

Another issue to consider is the potential accounting and core system impacts of expanded hours of operation. Many institutions utilize end-of-day batch or nightly processing. Impacts of processing transactions that occur outside of current operating hours would need to be considered. This change may be significant, particularly for community banks that rely on third-party vendors for their core systems and processing capabilities. Even where a financial institution may be willing to participate in expanded hours, they may necessarily be limited by their core vendors and systems. Even if a suitable vendor and system is available, a core system conversion comes with significant cost, both in terms of pure financial expense as well as resource allocation. Further, many financial institutions may have limited options with current vendors, depending on current contract requirements, mandatory terms and limitations on services offered.

In addition, optional extended hours may present challenges and unintended consequences to ancillary or vertical businesses, as well as customer confusion. The impact on businesses such as title companies and mortgage lenders that rely on a recognized definition of business days should be considered. Will notice periods and contract terms be impacted by the potential for extended hours? Will extended hours result in customer confusion given the optional nature of the proposal?

The Association recommends:

1. The Board consider the anticipated need for additional personnel for both financial institutions and their vendors in conducting its cost-benefit analysis of the proposal.
2. The Board consider opportunity costs as part of the overall cost-benefit analysis.
3. The Board consider limitations of core vendors and systems.
4. The Board consider the impact of variations in service hours from both a customer and vertical or ancillary business perspective.

Security and Maintenance

Financial Institutions and their vendors use weekends and holidays to install security patches, upgrade equipment, and migrate operations from one operating platform to another. The proposed change eliminates this window and creates 44 additional hours of operating time where these improvements cannot be made during downtime. This will require new approaches to making these essential changes. As noted previously, ensuring that banks can participate in the Fedwire Funds Service expansion with flexible hours or days would help to ease this concern. For example, if a bank participated on Saturdays,

but not Sundays, it would still have a substantial block of down time to address security and maintenance issues.

Financial institutions rely on vendors to provide core services and protection from hacking and cyber intrusions. It is essential that these key members of the industry be willing and obligated to meet any additional needs that these changes could present.

The Association recommends:

1. The Board conduct research on the effect of this change on cyber security
2. The Board create a plan for performing all of these existing functions during expanded operating hours-whether during down time or concurrent with processing
3. The Board provide assistance and oversight of all vendors in this area to ensure that all proper actions are taken to ensure the security of the financial institutions and customer data.

Implementation Timeline

The proposal states that the earliest the changes could be made would be March 2027, two years after the Fedwire® Funds Service ISO 20022 migration is complete. Given the substantial technology changes, staffing and vendor upgrades, and the need to modify rules, regulations, and accounting practices to reflect a seven-day per week processing environment, this is a very aggressive timeline. The Board should not select a launch date without ensuring that there will be enough financial institutions and sufficient customer demand to participate to make it efficient.

The Association recommends:

1. The Board start with only Fedwire® Funds Service operating hour expansion in March 2028, or on a date when there will be a critical mass of financial institutions participating. A financial institution may find it difficult to make a business case to operate if only a small number of others were in operation to send or receive transactions; and
2. The Board consider expanding NSS operating hours, which would allow for expanded ACH operating hours, in a separate proposal that is based on an actual analysis of data to include a forecast of transaction volumes and dollar values.

Discount Window and Liquidity

The proposal asks for comment on the need for expanded discount window access in conjunction with expanded operating hours. As a general matter, the Federal Reserve should ensure that banks would have access to adequate funding sources over the proposed expanded operating hours, both to manage normal volatility and stress scenarios.

-
The relatively low transaction volumes and dollar amounts of FedNow and RTP represent a much lower liquidity risk than large wires or ACH transactions. Wires can be up to one penny less than \$10 billion per transaction. An expansion of exceptionally large wires and ACH operations to 22/7 would change the way

banks manage liquidity because banks do not have control over incoming debits, which reduces a bank's master account balances. A move to 22/7 large wires and ACH would require additional liquidity:-

To ensure adequate liquidity in the payments system, we recommend that the discount window hours and operations align with Fedwire® Funds Service and ACH operating hours. Additionally, we recommend that all parties involved including banks, Federal Reserve supervisory and prudential staff, and the FDIC and OCC coordinate and communicate to ensure that a transition to 22/7 does not pose undue risk or trap liquidity at the discount window. Moreover, many banks prefer to manage liquidity through other means other than the discount window. Obstacles to the adoption of expanded hours posed by liquidity and funding concerns brought on by the possibility of exceptionally large wires would also be ameliorated by the availability of funding through the Federal Home Loan Bank (FHLB) and the Standing Repo Facility (SRF) during extended hours. It is essential that the Federal Reserve integrate the FHLB system as a source of funds during the extended hours. The proposal points out that intraday credit will be available during expanded hours, but that the Board would continue to expect firms to manage their master accounts to avoid overnight overdrafts. Due to the lack of funding available during extended hours, overdrafts during expanded hours should be considered intraday until the next regular business day. Given these issues, prior to finalizing a proposal, we recommend that the Board conduct an analysis of the liquidity risks posed by expanding ACH operating hours on financial institutions. Additionally, we understand the Fed is working to improve the operations and efficiency of the discount window and suggest that these improvements precede a switch to 24/7 payments.

Extending the hours of the discount window will also require the Board to update its staffing plan for the discount window to ensure that financial institutions that need access receive access in a timely and efficient manner.

In addition to a need to extend the discount window and operations, extended Fedwire® Funds Service hours would also necessitate the hiring of additional treasury personnel to manage and monitor liquidity needs. This need may have a more significant impact on community banks that currently handle treasury functions with a limited number of employees, resulting in the need for a significant increase in qualified personnel. In addition, the subject matter expertise needed for this role can present challenges when looking for employees that are also willing to work during non-traditional hours.

The Association recommends:

1. The Board make the discount window available during the same hours that banks must monitor for liquidity including any time Fedwire® Funds Service or FedNow is operating.
2. The Board treat daylight overdrafts as intraday for the entirety of extended operating hours.
3. The Board conduct analysis of the liquidity risks posed by expanding ACH operating hours on financial institutions to include in its re-proposal.
4. The Board improve the operations and efficiency of the discount window be completed prior to any implementation of 22/7 payments:-
5. The Board actively engage and encourage the participation of the FHLB to provide liquidity management services during the extended operating hours.

Payment System Risk Policy

To be eligible for intraday credit, financial institutions must be in good financial health and have access to the discount window. It is also important that the financial institution complies with all rules and regulations. It is important that financial institutions have adequate prior notice of any rule or regulations changes that may occur with expanding Fedwire® Funds Service operating hours.

The Association recommends:

1. The Board begin releasing any proposed rule changes for public comment as soon as possible.
2. The Board should begin with changes needed to support Fedwire® Funds Service changes and prepare for future changes.

Participant Directory

A public directory of participants is needed so that financial institutions know which financial institutions can receive transactions during the extended hours. The directory needs to be updated in near real time to reflect when a financial institution needs to halt processing for system maintenance or upgrades.

The Association recommends:

1. The Board create a public directory of financial institutions capable of receiving Fedwire® Funds Service transactions during extended hours. This directory should be updated in real time and allow for financial institutions to temporarily opt out participation to conduct system maintenance.

Regulatory Changes

The proposal references the need to make supporting regulatory changes to support modifications of Fedwire® Funds Service operating hours. The importance that these changes be made in advance of the operational change cannot be overstated. Financial institutions need time to make internal policy and process changes and to train staff in these changes. Rule and regulation changes must move in concert to support the operational changes. Likewise, the Board should fully explain the implications for liquidity regulations such as Reg. WW (the Liquidity Coverage Ratio (LCR)) and Reg. YY (internal liquidity stress testing (ILST)) of extended operating hours and the concomitant variability in firms' reserve account balances.

The Association recommends:

1. The Board should ensure that all regulatory changes will be clear, simple, and easily understandable.
2. The Board should implement these regulatory changes far in advance of any operational changes.
3. The Board should ensure that the regulatory changes are carefully crafted to ensure that any financial institutions that opt out of participation are not disadvantaged or harmed.
4. The Board consider—well in advance of the final implementation of extended operating hours—how the extension of Fedwire® Funds Service operating hours would impact relevant regulatory

reporting requirements, including the LCR and ILST. Any transactions occurring on weekends and holidays should be included in reporting for the next non-weekend or holiday workday.

Federal Deposit Insurance Corporation (FDIC)

Almost all bank resolutions occur over weekends when bank transactions are halted. This proposal would change this situation. It would be valuable to understand how the FDIC would approach weekend resolutions if a failed financial institution was participating in the extended hours for Fedwire® Funds Service. The Board should consult with the FDIC and share the results of that discussion.

The Association recommends:

1. The Board and FDIC clarify how extended Fedwire® Funds Service hours would affect weekend bank resolutions.

We appreciate the opportunity to provide comments on the proposal. If there are any questions concerning our comments, please contact Stephen Kenneally at skenneally@aba.com.

Respectfully,



Stephen K. Kenneally
SVP, Payments
The American Bankers Association