



September 6, 2024

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

Via Email: regs.comments@federalreserve.gov

Re: Docket No. OP-1831, Expansion of Fedwire® Funds Service and National Settlement Service Operating Hours

Dear Ms. Misback,

On May 9, 2024, the Board of Governors of the Federal Reserve System (the “Board”) published in the Federal Register a proposal to expand the operating hours of the Fedwire® Funds Service and the National Settlement Service (“NSS”) (the “Proposal”).¹ The Board proposed to expand the operating hours of the Fedwire Funds Service (“FFS”) to 22 hours per day, 7 days per week, every day of the year and to correspondingly expand the operating hours of NSS.² On June 21, 2024, the Board extended the comment period until September 6, 2024.³

The Securities Industry and Financial Markets Association (“SIFMA”)⁴ appreciates the opportunity to provide comments on the Proposal. While the proposed expansion of operating hours of the systems will have a range of impacts on financial services firms’ and their clients’ approaches to payments and funds movements, SIFMA will confine its comments to four areas which are more directly connected to capital markets operations:

¹ 89 FR 39613 (May 9, 2024), Docket No. OP-1831, Document No. 2024-10117, Expansion of Fedwire® Funds Service and National Settlement Service Operating Hours, *See also* <https://www.govinfo.gov/content/pkg/FR-2024-05-09/pdf/2024-10117.pdf>

² Proposal at 1.

³ 89 FR 53425 (June 26, 2024), Docket No. OP-1831, Document No. 2024-14018, Extension of Comment Period, *See* <https://www.govinfo.gov/content/pkg/FR-2024-06-26/pdf/2024-14018.pdf>, *See also* <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20240621b.htm#:~:text=The%20Federal%20Reserve%20Board%20on.to%20include%20weekends%20and%20holidays> (June 21, 2024).

⁴ SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's nearly 1 million employees, we advocate for legislation, regulation, and business policy, affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA).

1. The operating hours of Fedwire Securities Services;
2. The handling of Fedwire eligible securities during the opening hours of the discount window;
3. The potential funding implications from extended hours of the Board's payments infrastructure, e.g., the potential impacts on Foreign Exchange ("FX") markets and operations, as well as Money Market Funds ("MMFs") and similar products; and
4. The need to understand and consider how the extended hours of the Board's payments infrastructure would impact and require changes to securities industry regulations e.g., SEC Rule 15-c-3-3 and Reg T.

SIFMA recognizes at this time, the Board is not considering expanding operating hours for the Fedwire Securities Service ("FSS").⁵ SIFMA supports the Board's decision to maintain the existing operating hours for FSS. The current operating hours effectively balance the needs of market participants with the operational capabilities of the system, ensuring that transactions are processed efficiently without overextending the resources of financial institutions. Any extension of these hours would require significant adjustments across the industry, and the current stance reflects a prudent approach to maintaining stability within the financial markets.

Expanding the FSS operating hours would require a separate and thorough consultation process with the industry. The FSS plays a critical role in the settlement of securities transactions, and any changes to its operating hours could have significant implications for market participants. Unlike the FFS and NSS, which primarily manage cash payments and settlements, the FSS involves the transfer and settlement of securities, which are complex and require coordination with various financial market utilities and other market infrastructures. Expanding the operating hours of the FSS would necessitate a comprehensive analysis of the potential impact on the securities markets, including the readiness of associated infrastructures, such as securities pricing services and repurchase agreement service providers. Additionally, the operational and technical challenges for institutions that utilize this service would need to be thoroughly evaluated to ensure a smooth transition.

Further, the industry would need sufficient time to prepare for such a change, were one to occur. This would include upgrading legacy systems, enhancing operational capabilities, and potentially increasing staffing to support extended hours. These preparations would require significant investment and coordination among stakeholders. Therefore, any decision to extend the operating hours of the FSS would need to be preceded by a detailed consultation with the industry, allowing ample time for feedback and adjustments. It would also be important to consider the broader market implications of such a change. For example, extending the operating hours of the FSS could influence liquidity management, collateral management, and overall market functioning.

⁵ *Supra* note 2.

Should the Board reconsider its position on extending FSS operating hours, SIFMA strongly recommends that such a decision be preceded by a comprehensive public feasibility and cost-benefit analysis. This analysis would need to be conducted in close consultation with industry stakeholders to ensure all potential impacts are thoroughly understood. Such a study would need to address not only the operational and financial implications for participating institutions but also the broader effects on market liquidity, settlement risk, and systemic stability.

Additionally, the discount window is another area which needs some further consideration by the Board. The discount window is a critical liquidity tool for financial institutions, allowing them to pledge securities to access necessary funding.

Specifically, if the discount window is to remain functional and effective during expanded FFS hours, it is imperative that institutions who opt in to extended hours of FFS have the ability to pledge Fedwire Securities during these times. Therefore, the Board should review the pledging of Fedwire eligible securities during the operating hours of the discount window as this is crucial to ensuring seamless liquidity management and operational efficiency across participating institutions.

SIFMA agrees that extending discount window access to banks over weekends and holidays is essential if the Board moves forward with extending the operating hours of FFS and NSS. However, it is critical to consider that banks must pre-position sufficient collateral during these periods, given that FSS and the Depository Trust & Clearing Corporation are closed over weekends and holidays. As the Board prepares to review bank liquidity rules in 2025, the potential expansion of the discount window's availability should be integrated into these broader liquidity policy considerations to ensure a cohesive and well-aligned regulatory framework.

Further, requiring the discount window to be open without extending the operating hours for the FSS may necessitate complex prefunding arrangements and behavioral changes. Financial institutions rely on the ability to pledge securities to manage liquidity effectively. Without the corresponding availability of the FSS, institutions may be forced to engage in inefficient prefunding strategies to ensure they meet their liquidity needs during weekends and holidays. This misalignment could undermine the operational efficiency gains anticipated from the expansion of FFS and NSS operating hours. Hence, a comprehensive review and consultation process are essential to ensure that any changes to the operating hours are implemented cohesively across all related services.

It is important to highlight that the expansion of the Board's payments infrastructure operating hours may have funding implications as it relates to capital markets. For example, SIFMA proposes a thorough industry-wide review is essential to understand the full impact of expanded Fedwire payments infrastructure operating hours on FX activities. This assessment should focus on the technological, control, and process implications, particularly in relation to interdependencies between FX trading, securities, and derivatives transactions. For instance, the timing and funding of these transactions are closely linked, and any changes to the operational

hours could necessitate adjustments to current processes, risk management frameworks, and the technology platforms that support these activities. Additionally, the industry must carefully evaluate how extended hours might affect liquidity management, settlement risk, and the coordination between global FX markets and other financial instruments.

Another example to consider is the potential impact on client cash invested in Sweeps and MMFs. Since MMFs are classified as securities rather than cash, they will not be accessible over weekends and holidays. This could prompt demands for changes in the operating models of MMF providers, as well as shifts in the behavior of clients/investors who may wish to access their funds during these periods. SIFMA noted similar concerns in a comment letter submitted to the Board on December 14, 2018, regarding the Board's actions to support interbank settlement of faster payments.⁶ These points should be revisited in light of the current proposal to ensure that industry practices evolve in a way that supports both client / investor needs and market stability.

Additionally, the Board should be aware of the impact of non-securities cash payments within the broker-dealer account. Many firms send and receive thousands of FedWire money only transactions from individual investors daily. Many of those transactions are invested in "bank deposit" sweep products as well as money market securities sweep products. For example, if a retail client sends a FedWire transaction on Saturday night, in the current environment a firm may not be able to invest until Monday. The loss of interest due to the inability to invest either overnight or during the weekend would negatively impact retail clients. This delay in investment could lead to significant cumulative losses for retail clients. It's crucial for the Board to consider implementing measures to address this timing gap to protect investor interests.

Furthermore, if the Board extends the operating hours of its payment infrastructure, then it will be necessary to look at securities industry regulations to understand how the new timeframes might require changes to current securities regulations, e.g., SEC Rule 15-c-3-3 and Reg T.

In summary, while the proposal is focused on the operating hours of the FFS and NSS, at a later date should the Board reconsider its position on extending the operating hours of FSS, SIFMA strongly recommends that such a decision be preceded by a comprehensive public feasibility and cost-benefit analysis in consultation with the industry. This approach will ensure all relevant factors are carefully considered, and the industry is adequately prepared for any such change. Furthermore, even with the expanded operating hours of the FFS and NSS only, there are issues which need to be analyzed between the intersection of the Securities markets and Payments for example, the impact on the discount window, FX markets and operations, MMFs and similar products, and Securities Regulations.

⁶ SIFMA Comment Letter (December 14, 2018), Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments, Docket No. OP-1625, *See also* https://www.federalreserve.gov/SECRS/2019/March/20190315/OP-1625/OP-1625_121818_133400_479768271936_1.pdf

On behalf of our member firms, SIFMA appreciates the opportunity for continued collaboration and looks forward to continued dialogue with you and the Board. Our shared interest in achieving efficient Fedwire operating hours remains consistent. We would appreciate the opportunity to continue discussions with you and the staff on this important industry initiative. Please feel free to reach out to the undersigned.

Sincerely,



Charles DeSimone
Managing Director, Deputy Head of Technology, Operations, and BCP, SIFMA



Anthony Macchiarulo
Assistant Vice President, Financial Services Operations & Assistant General Counsel, SIFMA

cc: The Honorable Jerome H. Powell, Chair of the Board
The Honorable Phillip N. Jefferson, Vice Chair of the Board
The Honorable Michael S. Barr, Vice Chair for Supervision of the Board
The Honorable Michelle Bowman, Governor, Board of Governors
The Honorable Lisa Cook, Governor, Board of Governors
The Honorable Adriana Kugler, Governor, Board of Governors
The Honorable Christopher Waller, Governor, Board of Governors
The Honorable Ann Misback, Secretary of the Board

Mark Magro, Manager, Division of Reserve Bank Operations and Payment Systems
Ann Sun, Lead Financial Institution Policy Analyst, Division of Reserve Bank
Operations and Payment Systems
Gavin Smith, Senior Counsel, Legal Division
Corinne Milliken Van Ness, Senior Counsel, Legal Division