



HOLDING COMPANY

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September 6, 2024

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

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

Dear Ms. Misback:

FirstBank appreciates the opportunity to provide comments to the Board of Governors of the Federal Reserve System (Board) on the proposal to extend the operating hours of the Fedwire Funds Service and the National Settlement Service (NSS)¹ to 22 hours per day, 7 days per week, and all days of every year. FirstBank is a community bank with approximately \$26 billion in assets and over 100 branch locations, serving consumer and commercial customers throughout Colorado, Arizona and California. Our core mission is “banking for good”, meaning we aim to do what’s best for our customers, communities and employees. That philosophy covers how we support our customers and communities, and encompasses maintaining efficient and secure payment processing services.

Considering the impacts expanding wire processing and NSS services would have upon the industry, FirstBank primarily requests the Board delay the decision to extend these operating hours until more research can be completed to fully understand the industry impacts, and also quantify the potential demand. The former will ensure such a change recognizes the aggregate impacts to all financial institutions, especially in a time where many banks are facing a depletion of liquidity while navigating a heightened risk environment due to the number of implementations, including the FedWire ISO20022 conversion and the implementation of the FedNow instant payments service. The latter will enable all banks, especially community banks such as FirstBank, to quantify how participating in the expanded hours would impact customer retention and payment processing, giving institutions critical data with

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

which to make an informed decision if the benefits of participating in the expanded operating hours outweigh the detrimental impacts outlined within this letter.

While FirstBank understands and supports the intention to enhance the efficiency and competitiveness of the U.S. payment system, we believe delaying the decision and completing an analysis on the impacts will ultimately ensure the implementation of expanded hours will eventually be done in a manner that considers key aspects – outlined within this letter – and supports the stability and sustainability of all financial institutions.

FirstBank also requests the Federal Reserve carefully evaluate and consider the impacts such a change could have to bank liquidity, operational expenses, and system upgrades and maintenance. Other factors also requiring consideration include pressures that would arise to participate regardless of the opt-in flexibility, how this proposal would cannibalize instant payment activity currently enabled to provide for off hours and weekend/holiday activity, and the corresponding impacts this proposal has on ACH and check processing.

Customer Benefits

The proposed expansion of hours may provide benefits to customers, particularly to corporate clients in times where flexibility in processing time-sensitive payments is of the utmost need including payroll and invoice settlements. Continuing to offer payment solutions that align with the evolving needs of clients ensures the banking industry and the country continue to innovate in accordance with shifting banking needs. Expanding operating hours would also enable corporate clients to process cross-border payments in a safe, efficient and timely manner worldwide without being hindered by U.S. domestic holidays.

FirstBank corporate clients would be the primary benefactor of such a change, as nearly half of the \$107 billion in wires we will process in 2024 will be originated by our commercial customers. However, we do not anticipate this change would increase overall payment activity for any payment channel; rather, at a minimum we anticipate existing payments to evenly distribute throughout available processing days and some cannibalization of existing payment rails (namely instant payments) to occur. If you consider instant payment activity to be a current indicator of off-hour payment demand, the majority of FirstBank's instant payment activity occurs between 6:00 AM and 6:00 PM, only marginal activity occurs on a weekend, and those transactions are largely comprised of digital wallet and sports book consumer transactions, not commercial activity.

Impact on Bank Liquidity

Extending the operating hours of Fedwire and NSS is also expected to complicate and strain bank liquidity management. Banks rely on a predictable schedule to manage end-of-day liquidity positions, and extending the Fedwire and NSS operating hours would necessitate additional liquidity buffers to accommodate longer operating times and days. This increased need for liquidity would lead to higher risks of daylight overdrafts occurring with the Fed, as banks may struggle to maintain larger reserves or obtain sources for more frequent intraday funding to offset the (unknown) demand, which could disrupt optimal liquidity management strategies. There is also the risk of rapid deposit outflows during late hours and on weekends, particularly when a bank is in crisis, which could intensify the liquidity concerns.

In addition, without adjusting access to the Discount Window, and expanding access to alternate funding such as with the Federal Home Loan Bank (FHLB), in accordance with the Fedwire and NSS operating hours, banks would be in further need of inflating their reserves to maintain adequate funds overnight, on weekends, and on Federal holidays. If extending operating hours moves forward as proposed, the Board should consider at the very least extending access to the Discount Window, and coordinating with the FHLB to adjust their operating hours, to mitigate against negative consequences to bank liquidity. If extending access to liquidity sources is not a consideration of the Board, please then consider additional impacts that are expected with this proposed expansion including technological changes to facilitate immediate escalation and visibility into situations where liquidity becomes an issue due to the Discount Window being unavailable, and the possibility of financial institutions denying customer payments due to off hours funding constraints.

Finally, over the next many years, we will undoubtedly see continued investments into our global payment systems. This proposal addresses just one small part of current systems but does not go far enough to wholly improve the process. Time would be better spent designing a modern payment system that more closely couples payment messages and money movement, limiting needs for the liquidity management staffing and modeling this type of proposal will inevitably require.

Increased Operational Expenses

The proposal includes extending weekly operating days by up to 40%, which would inevitably result in higher operational overhead and fraud loss exposure for banks. Operational overhead would increase as financial institutions would be faced with managing staffing to support customer demand and processing by increasing existing labor, as current off-hours needs are filled by staff 'on call' and not 'on the clock'. The round-the-clock availability of key personnel would encompass payment operations, fraud prevention, technology, security, treasury management, and customer service staff, which could lead to significant increases in salary and overtime expenditures. This comes at a time when maintaining adequate staffing levels continues to be a struggle for many institutions; this change could threaten the ability of banks to attract and retain knowledgeable staff, potentially affecting their competitiveness and operational soundness.

This roughly equates to an estimated increase of over \$2M to annual salary and benefit expenses, a costly consideration for a scenario where the demand for such an extension is uncertain, and instant payment networks already exist and are rapidly innovating to address weekend or holiday money movement needs. These expenses are focused only on processing and technology overhead alone, but the Board should also consider how this change impacts the regulatory definitions of a Business or Banking Day² in relation to dispute processing, interest accrual, funds availability, rescission termination, loan documentation delivery and waiting periods, in addition to changes that would be required to bank systems. The Board should also consider that financial institutions would likely need to reconsider customer fee assessments to offset the growth in expenses required to support the extended hours. FirstBank urges the Federal Reserve to consider the wholistic impacts to customer communication, system adjustments, and expense overhead that could arise with this proposal.

² Regulation CC, Chapter 229.2 Definitions, Section f) "Banking day" and g) "Business day"

The Federal Reserve should also comment and clarify how they intend to ensure they have adequate staffing levels to support banks, assuming most financial institutions would feel compelled to opt into supporting the expanded hours, including holidays and weekends.

System Maintenance and Upkeep

The current Fedwire operating hours provide essential windows for financial institution system maintenance, security patches, and upgrades without significantly disrupting daily operations or customer activity. The proposed hours greatly reduce and nearly eliminate these maintenance windows, increasing the risk of technical issues, system downtime, and negative customer impacts. Regular maintenance is crucial to ensure the security, reliability, and efficiency of payment systems, and the downtime window proposed³ puts participating banks in a position where updates would overlap with standard business hours and negatively impact customers. Without adequate time for these necessary activities, the overall integrity of the payment infrastructure could be compromised, unnecessarily increasing operational risks and vulnerabilities.

Pressure to Participate Despite Optional Status

While participation in the expanded hours is proposed as optional, demand for expanded payment service availability has yet to be quantified. Despite the unknown customer benefits, financial institutions will face competitive pressure to opt-in to the expanded service hours in order to meet potential client demands and retain core deposits and customers. In addition, understanding customers are increasingly seeking institutions that can provide seamless, around-the-clock services, banks that choose not to participate or are functionally unable to do so may risk losing their clients to competitors. The competitive pressure is a key underlying component, particularly at community banks like ours, as it undermines the optional nature of the extension and effectively makes participation a necessity for maintaining a competitive market position and potentially sustaining customer satisfaction. Again, participation which will increase expenses, but not necessarily result in an increase to transaction volumes.

Existing Instant Payment Services

The existing instant payment networks, FedNow and the Real-Time Payments (RTP) network, have already provided significant innovative enhancements to the U.S. payment landscape and enabled customers with instant access to money movement regardless of the day or time. These services offer inherent advantages over Fedwire and the NSS by offering instant, irrevocable transfer and settlement of funds without the constraints of banking hours, and already address the need for faster and more efficient payment solutions by enabling a cost-efficient payment channel with 24/7/365 availability. The FedNow and RTP networks are specifically designed to meet the demands for immediacy and continuous availability in payments, thereby negating the need to modify the operational schedule of existing wire, check, or ACH services. With these robust systems in place, extending the hours of traditional transaction services like Fedwire, ACH and especially checks is redundant and unnecessary. Expanding Fedwire and NSS operating hours will also place financial institutions in a position where they must shift resources away from instant payment adoption and innovation to instead expand accessibility

³ Federal Register, Expansion of Fedwire® Funds Service and National Settlement Service Request for comment; Proposed Operating Hours for the Fedwire Funds Service: 9:00 p.m. ET-7:00 p.m. ET, every day

to legacy payment channels, a consideration the Board should carefully consider as the Federal Reserve is also actively seeking to expand adoption and usage of the FedNow network.

Implementation Timeline

Bank infrastructure management does not operate within sequestered verticals, and institutions must manage a number of technical projects at any given time to mitigate risks, respond to regulatory changes, implement system conversions, innovate products and services to support continued growth, and maintain existing operations. This point is key as the March 2027 deadline appears to only consider the completion of the initial ISO 20022 wire conversion as a dependency in this proposal, yet doesn't consider the subsequent roadmap of additional ISO 20022 enhancements required in the coming years,⁴ or other regulatory changes impacting financial institutions. Considering the regulatory calendar of changes alone, we urge the Federal Reserve to reconsider the proposed March 2027 implementation timeline until studies can be completed to fully understand the impacts of this proposal.

ACH and Check Processing

Although the current proposal only encompasses Fedwire and NSS, conversations with industry groups have shed light on the intent to include check and ACH processing in this expansion proposal. FirstBank requests that the Federal Reserve not include these payment channels in the Fedwire expansion and instead issue a separate request for proposal.

Check processing should not be included in an expanded service proposal; costs to support this channel, including the rapid rise in fraudulent activity and fraud detection efforts, offset any potential benefits associated with expanding these settlements. Demand doesn't exist for faster clearing of checks, and including this payment channel would counter the intended goal to maintain the country's competitive position within the payments industry, considering the United States is one of the final first-world countries to still allow check processing. As our industry continues to focus on expanding digital payment access and usage, enabling expanded access for check clearing would also be synonymous to taking a step backwards in payment innovation.

In consideration of expanding ACH processing, financial institutions must be allowed sufficient time to fully understand the necessary changes to internal systems, vendor systems, and customer agreements required to enable expanded ACH processing. Processors would also need time to upgrade systems in order to support changes to ACH processing, and a separate request for proposal would provide processors the ability to comment if and when they would be prepared to support such a change. Finally, since these payment channels were not specifically included in the original proposal, FirstBank requests the established policies be followed and the Board issue a separate notice and comment period before considering such a change.⁵

⁴ Specifically, the cross-border wire changes prompted by the Swift network, Cross-Border Payments & Reporting Plus (CBPRLus) which governs the usage of ultimate party identifications including standardizing postal addresses. Using fully unstructured addresses terminates in November 2026, and standardization of identification data will be required by year-end 2027.

⁵ The Federal Reserve in the Payments System (published 1984, revisions 1990 and 2001).

Conclusion

In conclusion, we believe the proposed extension of Fedwire and NSS operating hours could provide benefits, but this change could also negatively impact bank liquidity, increase operational expenses, and compromise system maintenance and upkeep. Additionally, the competitive pressure to participate, despite the optional nature of the extension, would place an undue burden on financial institutions. Finally, the evolving instant payment systems also already offer a more efficient and effective solution for real-time fund transfers. Therefore, we urge the Federal Reserve to reconsider this proposal to at least allow for additional time to thoroughly research all impacts.

Thank you for considering our perspective on this critical matter. We are committed to collaborating with the Federal Reserve to ensure a robust, secure, and efficient payment system that meets the evolving needs of the financial industry and customers.

If you have any questions or need clarification on any issue raised, please contact me at (303) 253-6590.

Sincerely,

A handwritten signature in blue ink that reads "Lavonne Heaviland". The signature is written in a cursive, flowing style.

Lavonne Heaviland

FirstBank, President – Centralized Operations