



American Express Company
200 Vesey Street
New York, NY 10285

September 6, 2024

Via Electronic Delivery

Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street & Constitution Ave., NW
Washington, DC 20551

**Re: Expansion of Fedwire Funds Service and National Settlement Service
Operating Hours**

FRB Docket No. OP-1831

Dear Ms. Misback:

American Express Company (together with its subsidiaries, "American Express") appreciates the opportunity to provide comments to the Board of Governors of the Federal Reserve System (the "Federal Reserve") on the Federal Reserve's proposal to expand the operating hours of the Fedwire Funds Service ("Fedwire") and the National Settlement Service ("NSS") (the "Proposal").¹

American Express appreciates the work of the Federal Reserve to explore opportunities to modernize the U.S. payments and settlement infrastructure. We believe the Federal Reserve staff and other commenters have correctly identified burdens and risks presented by the Proposal that warrant thoughtful consideration, and we generally support the Proposal, particularly with respect to the expansion of operating hours for Fedwire. In our comments below, we encourage the Federal Reserve to also enhance the technology, operational readiness, and services underpinning the Federal Reserve's discount window lending.

¹ See 89 Fed. Reg. 39613 (May 9, 2024).

I. Overview of the Proposal

Under the Proposal, the Federal Reserve would expand the operating hours of Fedwire to 22 hours per day, 7 days per week, every day of the year, and correspondingly expand the operating hours of NSS, with NSS continuing to close 30 minutes earlier than Fedwire.

We understand the Proposal is broadly intended as a measure to improve the U.S. payment and settlement infrastructure, and further support the safety and efficiency of the U.S. payments system.

II. The Proposal's Benefits Would be Enhanced by Focusing on Modernizing Discount Window Operations

Historically, discount window borrowing availability has been determined by each local Reserve Bank, but the discount window is generally available until the close of Fedwire (currently, 7:00pm ET). The Proposal “seeks comments on the need for discount window operations to support expanded hours.”² As discussed below, because the Proposal may increase the need for banks to access liquidity outside of historical discount window operational hours, American Express recommends that the Federal Reserve expand the discount window’s hours to match the expanded Fedwire hours.

Although we believe that the Proposal represents a positive step towards enhancing the safety, efficiency, and relevance of the U.S. payments system, we share some of the same concerns identified within the Proposal. Specifically, we agree with the Federal Reserve and industry commenters that the Proposal increases the risk that participating institutions executing Fedwire and NSS transactions during expanded hours may need to access liquidity support during what have historically been “off” hours for the discount window. As the Federal Reserve’s Governor Bowman has aptly noted, “[b]anking stress can manifest quickly and outside of regular business hours in different time zones, and we must make sure that the tools we have are available and prepared with trained and experienced staff ready to deal with the evolving risks of liquidity stress and pressure.”³

Indeed, “[t]he rapid collapse of Silicon Valley Bank made it clear that modern bank runs can unfold in a matter of hours (through social media and online banking), instead of days or weeks as in the past.”⁴ In addition to unfolding quickly, bank stress can also occur outside of regular business hours, and the risk is certainly not limited to the U.S. Eastern time zone.

As the Federal Reserve is aware, the banking stress in March 2023 “raised questions about the Fed’s operating hours,” as there was “a mad dash for the banks and Fed staffers to come up with workarounds before the Fed closed for business.”⁵ Ultimately, those firms were

² Proposal at 39619.

³ Gov. Michelle W. Bowman, *Bank Liquidity, Regulation, and the Fed's Role as Lender of Last Resort*, April 3, 2024, available at <https://www.federalreserve.gov/newsevents/speech/bowman20240403a.htm>.

⁴ Olivier Armandier and Charles Holt, “Can Discount Window Stigma Be Cured? An Experimental Investigation” (May 2024), FEDERAL RESERVE BANK OF NEW YORK, available at https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr1103.pdf.

⁵ Kyle Campbell, “Fed weighs expanding operating hours for Fedwire, NSS,” AMERICAN BANKER (May 3, 2024), available at <https://www.americanbanker.com/news/fed-weighs-expanding-operating-hours-for-fedwire-nss>.

not fully prepared to utilize the discount window, and the runs on the banks could not be overcome. As the industry observed during these events, there are numerous opportunities to enhance the technological and general operational capabilities, and thus, the practical utility, of the discount window.

In a hypothetical future scenario where a bank faces liquidity pressure (*e.g.*, in connection with executing Fedwire transactions during expanded hours) and is prepared to use the discount window, it may need to do so quickly, possibly late in the evening or on a weekend or holiday. For example, a bank on the west coast may face a need to obtain funding through the discount window at 4:30pm PT,⁶ but would be unable to do so if the discount window were no longer available at that time (7:30pm ET).

Any time spent without access to that funding would enhance the vulnerability of that individual institution – with contagion risks for the industry – and could ultimately be impossible to overcome, given the speed with which information would be transmitted to the bank’s customers. Accordingly, to help ensure firms across the country may access funding in times of stress when needed, American Express recommends expanding the discount window’s hours to match the expanded Fedwire hours.

III. Expanding the Hours of Fedwire and NSS, but Failing to do so for the Discount Window, Could Increase Liquidity Risk

Moreover, the Proposal asks whether “the availability of discount window loan originations on weekends and holidays [should be] a prerequisite for expanded operating hours for the Fedwire Funds Service and NSS[.]”⁷ American Express believes that it should be.

If the Proposal were to be adopted, but the discount window’s hours were not expanded to match, there would be increased risk that foreseeable future liquidity events could become destabilizing. As the Proposal recognizes, large wires can be sent via Fedwire (up to one penny less than \$10 billion per transaction), and ACH debits via NSS, which must be honored, also reduce the balances of a firm’s master account. Therefore, if the hours for these payment services are expanded, large sums of money could be moved out of a financial institution at any time during those expanded hours (at least for firms that choose to participate in the expanded hours). Accordingly, expanding the operating hours of Fedwire and NSS without likewise expanding the operating hours of the discount window could expose banks to greater liquidity demand while simultaneously depriving them of a critical source of backup liquidity.

We also note that, to the extent that expanded hours for the discount window address liquidity concerns and reduce individual bank stress, they may also help calm market reactions and reduce the risk of contagion to other institutions. Thus, these measures would help support resiliency and increase the chances for a firm’s recovery from stress, which could reduce the risk of bank failure(s), along with reducing transmission / systemic risk. This would ultimately

⁶ See “Federal Reserve’s Discount Window: Policy Issues” (May 8, 2024), Congressional Research Service, at 2, available at <https://crsreports.congress.gov/product/pdf/IF/IF12655> (“The [Discount Window] also closes at 7 p.m. Eastern time—before SVB, located on the west coast, could secure a loan.”).

⁷ Proposal at 39621, Question 12.

reduce the risk of losses to the Deposit Insurance Fund, which would have to be replenished by the rest of the industry.

In light of both (i) the general need for the Federal Reserve to take steps to modernize discount window operations and (ii) the potential for the Proposal to enhance the need for depository institutions to access liquidity outside of historical discount window operational hours, we recommend that the Federal Reserve expand the operating hours of the discount window to be coextensive with the expansion of Fedwire operating hours contemplated by the Proposal. Although expanding the operating hours of the discount window is just one step of many that we think should be taken to improve the overall functioning and utility of the discount window, we strongly agree that, at a minimum, such an expansion of discount window operating hours “would be a critical improvement, and one that would be responsive to identified shortcomings.”⁸

IV. Conclusion

We appreciate the work of the Federal Reserve in developing the Proposal and appreciate the opportunity to comment. For the reasons described above we generally support the Proposal, and we respectfully recommend that the Federal Reserve take the discrete steps outlined above to improve the Proposal with the overall goal of promoting safety and soundness and enhancing resiliency.

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⁸ Gov. Michelle W. Bowman, *Liquidity, Supervision, and Regulatory Reform*, July 18, 2024, available at <https://www.federalreserve.gov/newsevents/speech/bowman20240718a.htm>; see also Gov. Michelle W. Bowman, *Update on the Economic Outlook, and Perspective on Bank Culture, M&A, and Liquidity*, Aug. 10, 2024, available at <https://www.federalreserve.gov/newsevents/speech/bowman20240810a.htm> (“Expanded service hours are a concrete example of a change that is responsive to the issues experienced last spring, but my hope is that these changes are accompanied by other important operational improvements, including improved technology and operational readiness within the Federal Reserve System.”).

Thank you for considering our comment letter. We appreciate the opportunity to share our views with the Federal Reserve and would be happy to discuss any of them further at your convenience. If we may be of further assistance, please contact me at 212-640-3061 or kerri.s.bernstein@aexp.com.

Sincerely,

A handwritten signature in black ink that reads "K. Bernstein". The signature is written in a cursive, flowing style.

Kerri Bernstein
Executive Vice President &
Corporate Treasurer

cc: Christophe Le Caillec
Anderson Lee
Tom Bauer
Amy Best Weiss
Juliana O'Reilly
American Express Company