

operating hours for the Fedwire Securities Service.

DATES: IMPLEMENTATION

TIMEFRAME: Second quarter 2004.

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SUPPLEMENTARY INFORMATION: I.

Background. On December 19, 2002, the Board published for comment a proposal to expand the operating hours for the Federal Reserve Banks' on-line Fedwire Funds Service (67 FR 77786). The impetus for the proposal was industry requests to achieve greater overlap of U.S. wholesale payments system operating hours with those of the Asia-Pacific markets, including Australia, Hong Kong, Japan, and New Zealand. The Board has carefully reviewed the proposal and comments received, and has approved the proposal. After implementation of the new hours, the Fedwire operating hours will overlap the operating hours of major Asia-Pacific large-value payments systems by an additional three and one-half hours.³ The Federal Reserve Banks expect to test with participants beginning in the third quarter of 2003 and will implement these hours in the second quarter of 2004. The exact testing and implementation dates will be announced by the Federal Reserve Banks' Wholesale Product Office at least sixty days in advance and published on the Federal Reserve Financial Services web site at www.frb-services.org.

II. Summary of Comments

The Board requested comment on whether the opening time for Fedwire should be changed from 12:30 a.m. to 9 p.m. the previous calendar date or whether another opening time would be preferable. In addition, the Board was interested in commenters' views regarding the business, market, risk management, and operational issues that should be considered in evaluating the advantages and disadvantages of a 9 p.m. to 6:30 p.m. Fedwire business day.⁴

³ Under current hours, the Fedwire operating hours overlap the operating hours of major Asia-Pacific large-value payments systems by four to five and one half hours.

⁴ The Reserve Bank and Fedwire business days include all days except the following standard holidays that are observed by the Reserve Banks: all

Eighteen comments were received in response to the Board's request. These commenters included four credit unions, four state banks, three national banks, two Federal Reserve Banks, one clearing house, and four trade associations. The majority of commenters generally supported an expansion of the Fedwire operating hours. Only two commenters did not support an expansion of operating hours. One of the two contended that the previous expansion of Fedwire operating hours in 1997, coupled with the availability of Continuous Linked Settlement (CLS) services in 2002, has already significantly lowered settlement risk in foreign exchange markets. Consequently, this commenter believes that a stronger business case for further expansion of Fedwire hours is needed to justify the additional costs depository institutions could incur in adopting an earlier Fedwire opening time. The second commenter did not believe that there was any need to expand the operating hours of Fedwire at this time. After considering these concerns, the Board has concluded that they are outweighed by the expected benefits from the expansion of Fedwire operating hours. This conclusion, in part, is based on the fact that participation during the early hours is voluntary and that a large majority of commenters support the expansion of operating hours.

Two additional commenters supported the Board's proposal, but also noted that the Board's stated goal of assisting institutions operating in multiple time zones would better serve their needs if the Fedwire closing time were expanded to 9 p.m. and the opening time for the next business day remained at 12:30 a.m. The vast majority of commenters, however, supported an earlier Fedwire opening. Thus, the Board concluded that there is significantly greater demand at this time for an earlier opening of Fedwire than for a later close.

Commenters expressed technical concerns with the Board's proposal in three primary areas – end-of-day procedures, extensions, and account balance information.

A. End-of-day Procedures

Saturdays, all Sundays, New Year's Day (January 1), Martin Luther King's Birthday (third Monday in January), President's Day (third Monday in February), Memorial Day (last Monday in May), Independence Day (July 4), Labor Day (first Monday in September), Columbus Day (second Monday in October), Veterans' Day (November 11), Thanksgiving Day (fourth Thursday in November), and Christmas Day (December 25). If January 1, July 4, November 11, or December 25 fall on a Sunday, the next following Monday is a standard Reserve Bank holiday.

Two commenters indicated that the period of two and one-half hours between the scheduled close of Fedwire and the proposed open of Fedwire for the next business day might not be sufficient to complete necessary end-of-day processing and procedures. Because participation in the expanded hours is voluntary, the Board believes that depository institutions will be able to adjust their participation in Fedwire to allow sufficient time for their end-of-day activities.

B. Extensions

Five commenters expressed concern that the decreased interim period between the close and open of Fedwire would restrict the Federal Reserve Banks' flexibility in granting extensions to the Fedwire business day. These commenters want the Federal Reserve Banks to retain the flexibility to grant extensions on a case-by-case basis to help mitigate substantial market disruptions, if they occur. Further, these commenters believe that the Federal Reserve Banks should encourage key Fedwire participants to minimize or eliminate the need for extensions of processing deadlines, except in extreme circumstances. The Federal Reserve Banks intend to continue to grant extensions according to published criteria.⁵ In general, the Federal Reserve Banks will work to maintain a two-hour interim period between the close and open of Fedwire each business day.⁶

C. Account Balance Information

Three commenters expressed concern that depository institutions' Federal Reserve account balances may not reflect all of the previous day's payment activity at the proposed 9 p.m. open of Fedwire. These commenters note that the use of provisional, rather than final, account balances could adversely affect the risk management practices of those institutions participating in the earlier hours. One commenter suggested further that transactions that cannot be posted by the close of Fedwire should be posted to accounts the following business day. The Federal Reserve Banks are analyzing the sources of late

⁵ The criteria for granting extensions can be found in Federal Reserve Operating Circular 6. Operating Circulars are available at www.frb-services.org.

⁶ This two-hour period is based upon discussions between the Wholesale Product Office and industry participants regarding participants' current end-of-day processing limitations and is subject to future change. In some cases involving a delayed close of Fedwire, in order to maintain a two-hour interim period, the Wholesale Product Office may need to delay the opening of Fedwire for the next business day. In extreme circumstances, however, the Federal Reserve Banks may need the flexibility to shorten the interim time period. Further, in the long term, the Federal Reserve Banks may have to reevaluate their extension policy to sustain the ability to open Fedwire timely.