

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date: April 15, 2024
To: Board of Governors
From: Staff¹
Subject: Expansion of Fedwire[®] Funds Service and National Settlement Service Operating Hours

ACTION REQUESTED

Staff requests approval to publish the attached draft *Federal Register* notice (FRN), which would request public comment on a proposal to expand the operating hours of the Fedwire[®] Funds Service to 22 hours per day, 7 days per week, every day of the year (22x7x365) and to correspondingly expand the operating hours of NSS, with NSS closing 30 minutes earlier than the Fedwire Funds Service.² The FRN will propose that the expansion to 22x7x365 be implemented no sooner than 2027, two years after the migration of the Fedwire Funds Service to the ISO 20022 standard. The notice seeks comment on the potential benefits, risks, and implementation considerations of the proposal. At this time, the Board is not considering expanding operating hours for the Fedwire Securities Service. Staff also requests the authority to make technical, non-substantive changes to the request for comment prior to publication.

BACKGROUND

The Federal Reserve Banks operate two large-value payment services: the Fedwire Funds Service and NSS. The Fedwire Funds Service is a real-time gross settlement (RTGS) service that allows participating financial institutions (participants) to send and receive

¹ Jennifer Lucier, Edward Anderson, Jason Hinkle, Mark Magro, Ann Sun, Aaron Compton, Brajan Kola (Reserve Bank Operations and Payment Systems), Evan Winerman, Corinne Milliken Van Ness, and Sumeet Shroff (Legal), Margaret DeBoer and Courtney DeMartini (Monetary Affairs).

² Fedwire Funds Service is currently open from 9:00 p.m. ET of the preceding calendar day to 7:00 p.m. ET, five days per week, Monday through Friday excluding holidays observed by the Reserve Banks. NSS is open from 9:00 p.m. to 6:30 p.m. ET, five days per week, Monday through Friday excluding holidays observed by the Reserve Banks. The Federal Reserve has historically provided at least 30 minutes between the close of NSS and the close of the Fedwire Funds Service, recognizing that the Fedwire Funds Service is the primary alternative for orderly and efficient settlement of bilateral obligations in case a settlement arrangement is unable to complete its multilateral settlement through NSS.

individual electronic funds transfers up to one penny less than \$10 billion in value that are immediate to participants, final, and irrevocable. NSS is a multilateral settlement service that allows for immediate, final, and irrevocable settlement of obligations that arise from private-sector clearing arrangements, such as check clearinghouses, a private-sector ACH network, and securities settlement systems.

In 2019, the Board expressed its intent to explore expanded hours for the Fedwire Funds Service and NSS in an FRN regarding interbank settlement of faster payments (FedNow FRN).³ In 2022, the Board stated its intent to issue an FRN on expanded hours after collecting additional feedback.⁴ Industry feedback from a broad range of stakeholders following the FedNow FRN process has indicated continued support for expanding operating hours for the Fedwire Funds Service and NSS up to 24x7x365.⁵

DISCUSSION

1. Proposed Action

Staff recommends that the Board approve the proposal to expand the operating hours of the Fedwire Funds Service to 22x7x365 and to correspondingly expand the operating hours of NSS. Under the proposal, NSS would continue to close at 6:30 p.m. ET, 30 minutes prior to the close of the Fedwire Funds Service at 7:00 p.m. ET. Both services would maintain their current opening time of 9:00 p.m. ET of the preceding calendar day and expand operating days to include weekend days and holidays. The table below summarizes the proposed changes to operating hours for the Fedwire Funds Service and NSS.

³ See 84 FR 39297 (Aug. 9, 2019). The Board indicated that further analysis was needed to evaluate fully the relevant operational, risk, and policy considerations of expanded Fedwire Funds Service and NSS operating hours.

⁴ See 87 FR 64217 (Oct. 24, 2022).

⁵ The Reserve Banks conducted subsequent industry engagement through outreach sessions with a range of stakeholders, including large global financial institutions, small and mid-sized banks in different regions, and nonbanks and service providers, to better understand the needs and concerns of industry.

Proposed Changes to Operating Hours for the Fedwire Funds Service and NSS

	<i>Current operating hours</i>	<i>Proposed operating hours</i>
<i>Fedwire Funds Service</i> ⁶	9:00 p.m. ET – 7:00 p.m. ET, Monday – Friday, excluding holidays	9:00 p.m. ET – 7:00 p.m. ET, every day
<i>NSS</i> ⁷	9:00 p.m. ET – 6:30 p.m. ET, Monday – Friday, excluding holidays	9:00 p.m. ET – 6:30 p.m. ET, every day

2. *Rationale for proposal and analysis of options*

The Federal Reserve has expanded operating hours for the Fedwire Funds Service and NSS over time in response to changing market conditions and industry demand. Industry feedback from public comments to prior FRNs and industry engagement by the Federal Reserve has indicated support for expanding hours up to 24x7x365 to support 1) liquidity management and innovation for private-sector payment solutions, 2) greater speed and efficiency in cross-border payments, and 3) the role of the U.S. dollar as the preferred currency for global settlements. Moreover, such an expansion would be consistent with the actions of other central banks who are considering or have already expanded operating hours for their large-value payment services, and with the G20 Roadmap for Enhancing Cross border payments.

Staff completed an assessment of options and timelines for operationalizing expanded hours for the Fedwire Funds Service and NSS and determined that an expansion to 22x7x365 is the most efficient and effective next target state.⁸ Overall, the staff believes that expanding to 22x7x365 could achieve many of the benefits of 24x7x365 hours while giving the industry and Reserve Banks time to adjust technology and operations for potential future expansions of

⁶ The Fedwire Funds Service begins processing online payment orders beginning at 9:00 p.m. ET on the preceding calendar day. The Fedwire Funds Service begins processing online nonvalue messages at 8:35 p.m. ET on the preceding calendar day. The cutoff time for special account messages is 5:00 p.m. ET, the cutoff time for customer messages is 6:45 p.m. ET, and the cutoff time for bank messages is 7:00 p.m. ET. The Fedwire Funds Service closes at 7:00 p.m. ET.

⁷ The file processing window for NSS begins at 9:00 p.m. ET on the preceding calendar day and closes at 6:30 p.m. ET.

⁸ Staff considered multiple alternatives to the proposed 22x7x365, including the addition of a short weekend window of operating hours on Saturday and/or Sunday; 22 hours per day, 6 days per week; 24 hours per day, 5 days per week; and full 24x7x365 operating hours.

operating hours of the Fedwire Funds Service and NSS. Participation in expanded hours would be voluntary.

3. Benefits, costs, risks, and other considerations

Providing large-value payment services 22x7x365 would improve the nation's payment and settlement infrastructure, and further longstanding Federal Reserve payments policy objectives to support the safety and efficiency of the U.S. payment system. Some potential benefits of expanding operating hours include improving the credit risk and operational efficiency of systemically important financial market utilities and retail payment arrangements, spurring innovation in new or enhanced private-sector payment solutions, and supporting more efficient cross-border payments flows, among others.

The proposed expansion of operating hours for the Fedwire Funds Service and NSS would, however, present additional considerations for the Federal Reserve and for participants. For example, expanded hours would require operational and technical changes that would impose costs on the Reserve Banks and participants. The FRN requests feedback on the potential costs and risks of expansion, including operational and financial stability considerations.

Finally, staff's analysis to date suggests that over the long run, the Reserve Banks would be able to recover the costs associated with the proposed 22x7x365 expanded operating hours. Consistent with Board policy, staff believe that no other provider alone could be expected to provide this service with reasonable effectiveness, scope, and equity.

4. Implementation Considerations

The proposed expansion of operating hours for the Fedwire Funds Service and NSS raises a number of implementation considerations, including considerations related to the potential timeline for an expansion of the Fedwire Funds Service and NSS operating hours from 22x5 to 22x7x365; optional participation in a 22x7x365 operating environment; other potential enhancements to the Fedwire Funds Service and NSS; and the availability of the discount window.

Implementation timeline. The implementation timeline for the expansion of operating hours to 22x7x365 and potentially to 24x7x365 in the future will depend on many factors, including operational and technical considerations for the Federal Reserve and participants, industry preferences, and interdependencies with other developments in the payments landscape. In determining the final implementation timeline for 22x7x365 operating hours, staff recommends

the Board consider such factors and feedback received in response to this notice, including whether an interim step short of 22x7x365 would be desirable.

Based on industry outreach to date, there is broad consensus from stakeholders that expanding the Fedwire Funds Service and NSS operating hours should not occur until after the implementation of the ISO 20022 message format for the Fedwire Funds Service, scheduled for March 2025. Given this and other implementation considerations, the request for comment proposes to expand operating hours to 22x7x365 no sooner than 2027, two years after the implementation of the ISO 20022 message format for the Fedwire Funds Service.

While this proposal is focused on an expansion to 22x7x365, an expansion to full 24x7x365 operating hours for the Fedwire Funds Service and NSS remains a consideration for the future. The request for comment seeks to collect feedback from industry on constraints, preferences, and demand related to full 24x7x365 operating hours.

Optional participation. To help mitigate potential costs to participants, participation in the proposed 22x7x365 operating hours for the Fedwire Funds Service and NSS would be optional, in alignment with current service terms and feedback from smaller institutions.⁹ A participant that chooses not to operate during expanded operating hours might continue to receive payment orders through the Fedwire Funds Service, just as some participants today receive payment orders while they are not operating during overnight hours.¹⁰ Staff recommends the Board seek comment on considerations related to optional participation, including feedback on what steps the Federal Reserve could take to mitigate potential costs and risks.

Other enhancements. There may be other enhancements to the Fedwire Funds Service and NSS that could be considered in the context of or in addition to expanded hours. The request

⁹ Currently, a Fedwire Funds Service participant, for example, may decide not to be open to process payment orders sent to it over the Fedwire Funds Service during overnight hours. Similarly, an institution that participates in a private-sector clearing arrangement for which transactions are settled through NSS may be allowed under the rules of the clearing arrangement (i) not to send or receive transactions using the clearing arrangement during overnight hours (and thus not trigger any settlement obligations) or (ii) to instruct the agent for the NSS settlement arrangement not to include any debit or credit entries for the institution or other institutions for which it settles in any settlement files submitted to NSS during that time.

¹⁰ If a participant chooses not to operate during the weekend or on a holiday, it would not be required to take action on any payment orders sent to it during those days if they are not funds-transfer business days for the participant. Alternatively, if a participant wishes to operate only during part of the weekend and holiday operating hours, it may set cutoff or closing times for its funds-transfer business day, after which it would not be required to take action on a payment order sent to it until its next funds-transfer business day. For NSS, if a participant does not settle transactions through the NSS settlement arrangement during weekend or holiday operating hours, it may be unable to send or receive transactions through the private-sector clearing arrangement during that time depending on the rules of the clearing arrangement.

for comment seeks information to understand any demand for and considerations related to potential new functionalities for the Fedwire Funds Service and NSS, including the priority institutions place on their development in relation to expanding operating hours.

Availability of the discount window. The combination of the FedNow Service maturing in the coming years and potential expansion of the Fedwire Funds Service and NSS operating hours will increase the importance of accessing liquidity on weekends and holidays. The request for comment seeks information on the potential demand for liquidity via the discount window during expanded hours for the Fedwire Funds Service and NSS and whether its availability during certain defined hours on weekends and holidays would affect industry views on expanded hours.¹¹

5. *Other Considerations Related to Expanding Operating Hours*

Expanding the operating hours of the Fedwire Funds Service and NSS to 22x7x365 would raise additional considerations for the Federal Reserve, industry, and the broader public. First, institutions eligible to access intraday credit and electing to use the services would have access to intraday credit during the expanded hours.¹² Reserve Banks would continue to use the same general framework to monitor institutions and control credit risk as they use in the current operating environment. Second, as noted in the attached FRN, the Board is not considering expanding operating hours for the Fedwire Securities Service at this time.¹³ The request for comment notes that the Board will continue to monitor activity in securities markets and seek feedback from institutions to determine whether to pursue in the future an expansion of Fedwire Securities Service operating hours. Finally, Board policy requires that the Board conduct a competitive impact analysis when considering changes to a service.¹⁴ Based on staff's assessment and industry feedback to-date, an expansion of the Fedwire Funds Service and NSS operating hours is not expected to adversely impact any other service provider that competes with Federal Reserve payment services and could instead support their efficiency and resilience. The request for comment will seek feedback on whether there are any implications for competitiveness from expanding operating hours.

¹¹ Discount window office hours vary by district, but typically begin at 8:00 or 8:30 a.m. local time and end when the Fedwire Funds Service closes at 7:00 p.m. ET.

¹² The PSR policy allows for access to intraday credit up to 24x7x365.

¹³ Staff does not expect the proposed expansion of the Fedwire Funds Service and NSS operating hours to create significant changes in secured lending, derivatives markets, or other market activity that would necessitate expanded operating hours for the Fedwire Securities Service in the near term.

¹⁴ See *The Federal Reserve in the Payments System* (issued 1984; revised 1990), Federal Reserve Regulatory Service 9–1558.