Response to - Federal Reserve System Docket No. OP-1182

Policy Statement on Payments System Risk

Given the magnitude of the operational processing and intra-day credit changes the proposed, revised interest and redemption payments posting rules may introduce, it is our view that a phased approach would likely reduce the potential for significant, unintended payments system mishaps.

The principal motivation in implementing the proposed changes is to mitigate FRBNY's current level of intra-day, and potentially overnight, credit exposure arising from facilitating the principal and interest payments of fedwire securities issuers. However, merely shifting intra-day credit intermediation **from** FRBNY to other, likely depository, credit intermediaries without introducing significant operational changes could redistribute, rather than shrink or eliminate, the overall level of intra-day credit **risk.** From an FRBNY **risk** management perspective, such credit redistribution might be preferable to the current situation but not an optimal daylight credit management solution.

We would urge consideration of operational enhancements such as accelerated **new** issue processing and the simultaneous matching of refunding instruments and maturing issues and interest payments to achieve an effective "net-settlements" processing model. This approach would accommodate financing of a series of incrementally posted debits to P&I accounts throughout the operating day rather than the single, aggregate, early-morning debit procedure currently employed. Such **an** approach would also result in more modest amounts of intra-day credit required to finance only the mismatch between newly settling issues and P&I payment obligations. We would additionally suggest consideration of counting a certain percentage of documented, dedicated, committed but unfunded back-up lines and collateralized borrowing arrangements as "readily available", to potentially further reduce the need for funded intra-day credit.

The actions and changes ultimately implemented will likely require adjustments and calibration before a smoothly functioning process can be achieved; therefore, we believe a phased implementation is the appropriate approach, We suggest the Fed consider -- **if** it might present in miniature an effective test for the workings of the overall payments system -- starting the new posting rules process with some of the smaller organizations that will be affected by the changes and learn from that experience before implementing changes with the largest organizations that have significantly greater payment and settlement volumes and, consequently, represent the greatest demand for intra-day credit and therefore risk *to* the integrity of the payments system **and** market liquidity.

If the Fed believes such an approach might be useful, the Federal Farm Credit Banks Funding Corporation, as a smaller GSE debt-issuing agent, would be willing to be included in a pilot implementation program prior to the currently suggested July 2006 cut-over date.

Submitted by Federal Farm Credit Banks Funding Corporation