



March 15, 2007

BY ELECTRONIC MAIL

Jennifer H. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D. C. 20551

Regs.comments@federalreserve.gov

Re: Consultation Paper on Intraday Liquidity Management and Payment Systems Risk Policy
Docket No. OP-1257

Dear Sir or Madam:

Bank of America Corporation ("Bank of America") is pleased to provide input on the Board's consultation paper seeking information from financial institutions and other interested parties on their experience in managing intraday liquidity, credit, and operational risks relating to Fedwire funds transfers and associated transactions and their views on potential changes to the Board's Payment Systems Risk (PSR) policy.

Bank of America would like to compliment the Board on the completeness of the background information, the evaluation of current payment industry trends and its suggestions of possible market, operational or policy changes. Bank of America participated in the data gathering and subsequent evaluation performed by the Federal Reserve Payments Risk Committee sponsored by the Federal Reserve Bank of New York. While many of our experiences are incorporated in that body of work, we would like to also submit commentary separate from that effort since some of our observations and practices differ from the overall committee findings.

Bank of America submits the following responses to the questions posed in the consultation paper:

1. What intraday liquidity conservation strategies and technologies does your institution use (such as controlling the timing of payments and introducing queuing techniques to conserve liquidity)? How do these affect your institution's timing for sending payments? What, if any, changes are you planning with regard to intraday liquidity management?

It has long been Bank of America's practice to release outgoing wire requests upon receipt if the requestor has available funds to support the outbound payment. We do not believe that we should hold a wire request because the Bank's intraday net debit cap might need to be utilized to fulfill the request or because the Bank might incur a Daylight Overdraft charge. Bank of America does not queue wire requests to avoid Daylight Overdraft fees.

2. How do the concentrated demands for intraday central bank money by private sector systems influence intraday liquidity management by depository institutions throughout the day? Are there significant concentrated sources of demand for intraday central bank money beyond those already mentioned in the text and does this demand affect intraday liquidity management?

Bank of America participates in many central bank and private sector systems handling payments, clearing and settlement globally [Financial Market Infrastructures]. Bank of America conscientiously manages its liquidity on a global basis and takes into account its obligations in each of these FMI's accordingly.

3. Is the concentration of payments late in the day a concern for your organization? If so, what is the nature of your concern? Does it include operational risk from late-in-the-day payments and has operational risk to your organization from such payments been increasing or decreasing? What are the key drivers of late-in-the-day payments? How has your organization responded to the late-in-the-day concentration of payments?

Bank of America's late day activity is comprised primarily of the Bank's securities settlement activity and client requests. As the Federal Reserve observed in their background information, CHIPS and DTC settlement are part of this late day activity issue, but those clearing systems are well managed, their practices are well known and the activity is anticipated. So, Bank of America manages its liquidity to accommodate these industry practices.

We would be remiss if we didn't acknowledge that high and increasing volume and dollars of wires late in the day cause operational concerns. While we feel that we have the appropriate resources and processing in place to manage the inherent and residual operational and financial risks, we remain diligent in monitoring this activity. Of primary concern is the ability to respond and/or recover from an operational or systems problem of our own, of a major participant or of the networks.

4. For the market, operational, and PSR policy changes discussed in this document and listed as follows, how might the timing of payments and the demand for daylight overdrafts be affected? What advantages or disadvantages do you see for these changes:

- An intraday market to exchange liquidity between institutions that hold positive balances at the Reserve Banks and those that run negative balances

Bank of America observes that this intraday "use of available liquidity" suggestion is similar to end of day scenarios among correspondent banks. While the concept has theoretical merit, creating an intraday, industry-wide process would be costly in either a centralized or decentralized environment. Additionally, the financial institutions with available liquidity should be compensated for lending that liquidity to another financial institution. So, we believe this proposal would become a Daylight Overdraft and Intraday Interest system where the lending bank receives the interest income versus the current Central Bank scenario.

- A market for early return of federal funds or other money market investments

Bank of America supports this concept if there is incentive in the form of incremental interest income to return federal funds or other money market

investments early (i.e., assessing a premium for the effect on DOD costs of an early return).

- Enhancements by private settlement systems that further economize on the use of central bank money, for example, multiple settlement periods to release liquidity earlier in the day

Bank of America believes that these enhancements might be of some benefit from a liquidity perspective as well as from an operational perspective. However, we suggest a very cautious approach and thorough analysis that employs modeling techniques because the systematic changes required could be expensive to the industry and have unintended consequences.

- Liquidity saving mechanisms for the Fedwire funds transfer system

Based on the examples of liquidity saving measures defined in the document it appears that the Federal Reserve is contemplating some iteration/combination of the CHIPS operating model with the current Federal Reserve Real Time Gross Settlement (RTGS) model. Bank of America does not support this suggestion since we believe that there are value and client expectations in use of a true RTGS payment system.

- Throughput requirements for the Fedwire funds transfer system

Bank of America thinks that this requirement would be difficult to administer and enforce and questions if such a requirement would substantially alter the current payment flows. As noted in an earlier response our experience with late in the day payment requests points more to securities settlement and client requests. As we also stated, our practice is to release wire payments upon request when the client has adequate funds available.

- Greater use of voluntary or required collateral to cover partially or fully daylight overdrafts in depository institution accounts at the Reserve Banks

Bank of America supports greater use of collateral and reiterates the comments as stated in The Clearing House, LLC response of March 12, 2007. Banks should be allowed to use discount-window collateral to secure daylight overdrafts; there should be no charge for collateralized daylight overdrafts; and banks should be allowed to completely utilize the available collateralized overdraft line before incurring priced overdrafts. Such collateralization appears to be a good incentive for banks to bank make payments earlier in the day and it would conserve liquidity and reduce risk to the Reserve Banks.

- Two-tiered pricing for collateralized daylight overdrafts, with a fee charged for collateralized daylight overdrafts set lower than the rate for uncollateralized overdrafts

As Bank of America stated in the previous point, we do not believe there should be a charge for collateralized overdrafts.

- Time-of-day pricing for daylight overdrafts

Based on Bank of America's experience with funds transfer traffic, we do not believe that a lower overdraft charge early in the day would produce the desired results because the late day traffic is more a factor of securities settlement (post DTC settlement and taking final positions) and client activity. Perhaps if this concept were coupled with some of the other changes proposed it would incent funds flow earlier in the day, but on a standalone basis we do not believe it has merit.

5. What are the other possible approaches to consider to reduce delays in payments and to manage efficiently and effectively the Federal Reserve's exposure to increasing daylight overdrafts as well as depository institutions' exposure to intraday liquidity and credit risks? Are there other market or operational changes in the private sector that could help reduce intraday liquidity and credit risks?

Bank of America does not have any additional options to add at this point in time.

6. Congress is currently considering legislation that would allow the Federal Reserve to pay interest on reserve balances held by depository institutions at the Reserve Banks. How would the payment of interest on reserves affect depository institutions' intraday liquidity management, including the demand for daylight overdrafts at the Reserve Banks? Could the payment of interest on reserves be utilized to reduce the value or timing of daylight overdrafts?

Bank of America does not believe this option would impact the timing of funds transfers and could drain liquidity from the system and ultimately slow down payments.

We hope these comments are useful. If you have any questions, please feel free to contact me at 804-788-2718

Sincerely,

Lydia T. Connelly
Senior Vice President
GTS Control and Compliance
Bank of America, N. A.