WELLS FARGO

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Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551
Attention: Jennifer J. Johnson, Secretary

Re: Docket No. OP-1257
The Board of Governors of the Federal Reserve System ("Board") Consultation Paper on Intraday Liquidity Management and Payment System Risk Policy

Dear Ms. Johnson:

This letter is submitted on behalf of Wells Fargo & Company and its affiliates ("Wells Fargo") in response to the above referenced consultation paper and the Board's request for information. Our responses to the Board's questions are as follows:

*Questions from the Board:*

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 on 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?*

   Response: Wells Fargo does not intentionally queue customer payments as a strategy for controlling intraday liquidity. However, it is common for Wells Fargo to manage "discretionary payments," such as return of prior day Fed Fund and Euro Dollar overnight funding trades on a manual release basis, to coincide with the overall intraday funding market and timing of return payments from counterparties. Wells Fargo will generally try to pair the timing of these payments to most effectively manage intraday liquidity.

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 how does this demand affect intraday liquidity management?*

   Response: Private sector systems, such as CHIPS, require pre-funding and a net positive position intra-day to keep payments flowing. From Wells Fargo's perspective, private sector systems hold a substantial credit balance on our behalf during the business day. This credit balance is not reflected in our Federal Reserve balance until the settlement window in the latter part of the business day. This settlement window drives the increased demand for intra-day Federal Reserve credit.

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?*

Response: Yes, concentration of payments late in the day is a concern for Wells Fargo. It is our position that this delay in settlement increases operational risk because, with late changes in funding positions, it is difficult to predict our funding needs and the ability to obtain funds from sources at other banks in order to meet Regulation D funding requirements at end of day close. Additionally, Wells Fargo takes a serious approach to managing account activity in detail to ensure proper application of payments. With an increased transactional volume later in the day, the timing window in which to manage this activity shrinks, creating greater demands on the staffing structure for reviewing payments and increasing the opportunity for failed payments.

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.*

  Response: In considering intraday markets, the operational burdens outweigh the advantages for Wells Fargo. With an intraday market, there is no clear deadline, as exists with the close of FedWire today. Payments would need to be tracked manually for compliance with intraday timing deadlines and administered for compensation in the event of a late payment. Additionally, if institutions have positive balances intraday, selling it during the business day to get it back and apply final settlement seems counterproductive.

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

  Response: Since Wells Fargo routinely incurs Daylight Overdraft (DOD) charges, we do not believe that the cost savings in the early returns market would be sufficient to cover the marginal cost of DOD charges. Unless participation in an early returns market would result in clear profits, we do not see any justification for assuming the additional operational burdens described above. (We understand that there could be other institutions who do not incur DOD charges who may feel that any cost savings obtained in the early return market would be worth pursuing, regardless of the additional operational risk.)

• *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.*

Response: Multiple settlement windows would only benefit institutions that consistently hold credit balances throughout the day.

• *Liquidity saving mechanisms for the Fedwire funds transfer system.*

Response: Large financial institutions have the capacity to perform this function in-house using automated systems. We would also note that there is a distinct advantage to having multiple options for wire settlement, such as CHIPS. If the Federal Reserve participates in a similar product, while offering application of balances to Daylight Overdraft conditions, we are concerned that the competition may not survive.

• *Throughput requirements for the Fedwire funds transfer system.*

Response: It may not always be feasible for institutions to enter a portion of their FedWire payments by a specified deadline. Forcing settlement of a transaction may cause credit risk with customer transactions.

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

Response: Wells Fargo supports this option as a participant in the discount window program.

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

Response: This is a positive recommendation for cost reduction; although additional information is needed on expansion of the type of collateral the Board would be willing to accept.

• *Time-of-day pricing of daylight overdrafts.*

Response: More definition is needed on the timing differential here. This option also raises the question of whether institutions might hold payments longer to prevent Daylight Overdraft (DOD) conditions, further delaying settlement. Releasing payments earlier in the day could potentially cause reduced fee DOD charges earlier in the day plus increased DOD fees later in the day if reciprocating institutions do not move up settlement windows equally. We would like to have the opportunity to re-evaluate the issues as part of a more detailed Board proposal.

5. *What are 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?*

Response: We believe that the Board has provided a comprehensive list of alternatives to consider.

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?*

   Response: The payment of interest on reserve balances would be an alternative approach, and could impact intraday liquidity management, assuming that the Federal Reserve would be willing to pay a high enough rate to make it attractive.

We hope our responses are helpful. If you have any questions or would like to discuss any of the issues raised in this letter, please contact me at (415) 222-5350 or shirley.n.thompson@wellsfargo.com.

Sincerely yours,

Shirley Ng Thompson

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