BNP PARIBAS
CORPORATE & INVESTMENT BANKING

May 24, 2008

Ms. Jennifer J. Johnson
Secretary, Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

RE: Policy on Payments System Risk – Docket No. OP-1309

Dear Ms. Johnson:

Over the past three years, BNP Paribas ("BNPP") has taken an active role with the Institute of International Bankers (IIB) to discuss intraday liquidity management and the associated payment system risk policies with both the Federal Reserve Bank of NY and the Federal Reserve Board of Washington, D.C. Our contention was that the Fedwire system has a large operational risk associated with the fact that a small number of large valued transfers are held up in queue until late hours of each settlement day for the main purpose of mitigating the DLOD fees. If these transfers could be executed through the system earlier in the day, the net effect would be increased liquidity and faster recycled liquidity. This domino effect of earlier transfers would create the ability for more early transfers and would make the payment system more efficient and reduce the day-to-day settlement risk dramatically.

We feel institutions should be encouraged to clear their wire transfer queues as quickly as possible, ensuring a safer and sounder payment system. BNPP had suggested that a reasonable starting point on expediting the pace of wire transfers would be to review the current daylight overdraft deductible calculations. BNPP felt that this calculation needed to be constructed to encourage, rather than discourage, financial institutions to facilitate early wire transfers. BNPP believed the current calculations caused a competitive disadvantage to foreign banks as opposed to their American counterparts by recognizing at best, only 35% of a foreign bank's capital as opposed to 100% for our domestic counterparts, regardless of the home country. BNPP had hoped that this area would get particular attention paid to it during the total assessment of the payment system and its associated risks.

We are very pleased to see that the Board has understood and analyzed all the issues, including what we had suggested above, and has responded appropriately. We congratulate you on your suggested solution to the problems at hand by providing zero-fee credit to depository institutions who voluntarily pledge collateral to cover daylight overdrafts. This solution should create a much more even playing field to all depository institutions, allowing them the ability to wire funds earlier in the day without any penalty. We believe that if this solution is adopted, some payments should flow through system quicker and thus there will be less risk to the overall system throughout the day. There are some issues that still should be reviewed or addressed in conjunction with this change and I will review those after the questions/answers section below.

Please see our below responses to the questions asked in consultation docket labeled OP-1309.

Questions (page 12430/12431)

1) Does your institution believe that the introduction of zero fee for collateralized daylight overdrafts will contribute to an overall reduction in liquidity, operational, and credit risks in the payment systems? Would it reduce these risks for depository institutions, their customers, or financial utilities?

- BNPP agrees that this proposed change will contribute to lower risks in the payment system in all the above mentioned categories. We are excited about the prospect to make the system safer with this relatively easy to enact proposed change.

2) What procedural or systems changes do you expect to make as a result of this proposed policy change?

- We believe a small amount procedural or system changes are necessary to adopt the proposed changes. BNPP will certainly adopt a new set of guidelines within its own internal procedures, allowing quicker payments and larger daylight overdraft limits. Our internal system queues will have new thresholds set, allowing the larger and faster flows. However, for this initiative to be fully successful, we believe the various FRB Discount Windows will need to make advances in their collateral systems, allowing quicker pledging flows, both in and out.

3) Does your institution regularly use Federal Reserve daylight credit, and does your institution currently have sufficient unencumbered eligible collateral to pledge to the Reserve Banks to take advantage of a zero fee for collateralized overdrafts? By your estimate, what proportion of your expected average and peak overdraft would you intend to collateralize?

- BNPP does regularly use Federal Reserve daylight credit and does have sufficient unencumbered eligible collateral to pledge. We have not yet finalized the exact proportion of our peak overdraft that we intend to collateralize, but expect to have enough collateral to allow payments to go out at a much quickened pace. This means we intend to have enough collateral to at least cover our expected average.

4) Would your institution's intraday credit use increase or decrease from current levels? Do you expect the intraday credit usage of depository institutions as a group to increase or decrease from current levels?

- We would expect our intraday credit used to be increased as compared to our current levels, recycling liquidity into the system a quickened pace. We would expect the same from other depository institutions, but we are keeping in mind that the new system does not add incentives to wire earlier, but instead removes penalties for doing such. Banks will naturally leave a certain amount of payments in queue for liquidity reasons. In any event, as mentioned above, we will consciously look to wire money earlier in the day where possible and within our risk tolerance limits. We would also anticipate that many other participants would act similarly.

5) While the proposal envisages no fee for collateralized overdrafts, institutions will face an opportunity cost to pledge collateral. How difficult or costly would it be to collateralize daylight overdrafts? What opportunity costs would your institution face in pledging (additional) eligible assets to the Reserve Bank to collateralize daylight overdrafts? What are the costs of entering into the Reserve Banks' borrowing documents?

- BNPP does not envision much difficulty in collateralizing daylight overdrafts. We believe we have enough collateral on our books today to work with the new proposal. Having said that, we do not want to under estimate the costs should we need to add additional collateral. There will be a definite cost to holding this additional collateral.
- We believe any additional costs of entering into Reserve Bank's borrowing documents are negligible.

6) How would the adoption of this new PSR strategy, which explicitly links collateral to daylight overdrafts and pricing of daylight overdrafts, affect the availability of collateral for other financial market activity? How might it affect other creditors and other payments system participants?

-Collateral used for future potential TAF participations will probably be somewhat limited, as that collateral will be more likely be used for daylight overdraft cost reductions.

7) What (additional) collateral management capabilities would your institution expect of its Reserve Bank (such as changes to the frequency or means of obtaining collateral reports, the ability to move directly and quickly collateral in and out of pledge accounts, and so on)?

- BNPP would expect that the Federal Reserve be able to repay Discount Window (or TAF) borrowings at a very timely pace, allowing that collateral to be used at the wire opening the next day to offset daylight overdrafts. As stated above, we believe the Federal Reserve will need to make advances in pledging and movement of collateral. Ultimately, for the most efficient use of collateral, we might also envision intraday movement capabilities at some point in the distant future.

8) If you do not currently have a borrowing agreement or pledge any collateral, would you expect to do so? If so, would the rationale rest on the use of daylight overdrafts or overnight extensions of credit?

- N/A

9) To what extent would your institution make payments earlier in the day as a result of the proposed pricing changes? If your institution holds payments in a liquidity queue, would your institution continue to hold payments, particularly large-value payments, in a liquidity queue under the proposed policy changes? If so, under what circumstances would your institution continue to queue payments? What further steps would encourage queue reductions?

- We would anticipate making a good deal of payments to our level of risk tolerance earlier in the day as a result of this new proposal. Payments held in queue would be for large liquidity reasons and/or internal credit constraints, meaning not all payments can be released at the market open regardless of our collateral level. Although we believe an incentive might be necessary to entice all institutions to wire money out as fast as possible, we do not see any practical way of creating one. Instead, we believe the current policy has built in no disincentive to hold items unnecessarily in queue, allowing a certain portion of faster payments to take place. We also hope as more institutions pay money into the system quicker, receiving banks will be able to quicken their outgoing pace, and thus speeding this recycled liquidity over time.

10) Does your institution believe that the introduction of a zero fee for collateralized daylight overdrafts could lead to changes in practices for returning early securities used in repurchase agreements? What changes might institutions expect?

- We are not ready to suggest how repurchase agreement repayment behaviors might change in conjunction with this policy.

11) Does your institution believe that the introduction of a zero fee for collateralized daylight overdrafts and the higher (50 basis point) fee for uncollateralized daylight overdrafts could lead to changes in practices for the early return of fed funds loans? What changes might institutions expect?

- I think this question is best answered with two separate thoughts:

a) BNPP believes that the early returns fed funds market is currently limited and the new proposal could reduce the need to price these separately. Although funds will still need to be returned early, the additional costs charged to do such should be reduced. We would expect more institutions to be able to accept early return funds if they have the ability to automate certain queues.

b) Although this new initiative will certainly speed up the return of the overall fed funds loans market, it will not allow for the complete amount to be returned earlier. Banks will still hold payments up to their own individual risk tolerance level no matter how much collateral could be purchased and pledged based on this new proposal.

12) If your institution would face potentially higher fees on its daylight overdrafts, how will your institution adjust its collateral position or payments activities in response to the Board's proposed fees?

-We would expect the Board to adopt a collateral friendly approach.

As stated above, we are very happy with the new proposed policy, but see some issues that still can be addressed or reviewed.

1) This policy will take some time to implement, and in the interim, foreign banks are still at a cost disadvantage to domestic counterparts due to the way the free DLOD deductible is calculated as compared to an equally capitalized American bank. We would request an interim solution to be considered, giving foreign banks some immediate relief during this phase in period.

2) Some late payments are caused by "liquidity traps" such as DTC and CHIPs settlements. Although CHIPs is a private system and not under your control, it may be beneficial to the O/N Fed Funds market to either have CHIPs settle an hour earlier or have multiple settlements. This would clear many of the "big ticket items" from the system earlier in the day and recycle that liquidity, which would eliminate a substantial portion of the end of day pressures and associated operational and credit risk from the system.

3) We believe that it is worth reviewing the feasibility of establishing a cross border collateral pledging facility. This would enable institutions to pool and more efficiently utilize their collateral where and when required. This may require creating a global clearer or linked Central Bank system, which while it may be difficult and time consuming to enact, could provide the most complete long term solution.

4) Finally, the FRB must realize that for banks to add more collateral, the bank takes on certain risks; operational, credit, liquidity, and interest rate. Therefore, there should be some ultimate limit to the amount of collateral any one institution will take on its books, which in turn will somewhat still limit the payment system flows.

Please feel free to follow up on any of the above responses or new questions with me. I will be more than happy to discuss them further.

Sincerely yours,

Jonathan Light

Head of U.S. ALM Treasury

BNP Paribas U.S.

cc: Everett Schenk, CEO, BNP Paribas North America

Robert Coghlan, Director – Governance and Controls

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