WACHOVIA

June 9, 2008

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

Re: Docket No. OP-1309, Policy on Payments System Risk

Dear Ms. Johnson:

Wachovia Corporation ("Wachovia"), on behalf of itself and its subsidiaries, including Wachovia Bank, National Association, appreciates the opportunity to respond to the request of the Board of Governors of the Federal Reserve System ("Board") for comment on Docket No. OP-1309. Wachovia is generally supportive of the proposed changes to the Payments System Risk ("PSR") Policy. The proposed changes should help achieve the policy objective of safety and efficiency for payments and settlement systems. We applaud the Board's decision to shift its strategy to play an important role in providing intraday balances.

Wachovia responds below to the specific questions contained in Section V of the Board's Notice.

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

   Wachovia believes that the introduction of a zero fee for collateralized daylight overdrafts will contribute to an overall reduction in liquidity, operational and credit risks in the payments system, as the concentration of late day payment is partially due to the daylight overdraft fees. The introduction of the zero fee should encourage many banks to release Fedwire funds transfers earlier in the day. Because the use of collateral is voluntary, not all depository institutions may be willing to pledge sufficient collateral to facilitate an efficient payment flow. It would be possible for an institution without adequate collateral to hold payments until it receives incoming funds transfers from those depository institutions with adequate collateral. This would create an unhealthy situation as to who goes first. We appreciate the Board's concern over a move to mandatory collateral discussed in the proposal and the decision on the voluntary nature of collateralization; however, all depository institutions along with the Reserve Banks should collectively ensure that all depository institutions act responsibly to achieve the common goal of risk reduction.

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

   We do not expect systems changes specifically to meet the proposed policy change; however, Wachovia continually considers the feasibility of more robust intraday liquidity risk management procedures. We will review our current policies and procedures regarding the use of inter-company net debit cap, payment queue management and the intraday credit extension to our customers, among others.

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?*

   Wachovia regularly uses Federal Reserve daylight credit and currently has sufficient unencumbered eligible collateral to cover our present normal payment flow. Subject to financial and market conditions as well as our corporate treasury management policy, Wachovia could collateralize a major portion of our expected average and peak overdrafts.

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?*

   Most likely, Wachovia's intraday credit use would increase from current levels subject to various factors, including but not limited to change in our future business strategy and market conditions. As mentioned above, upon our review of payment queue management policy, our current emphasis on CHIPS over Fedwire payments may change, unless CHIPS could achieve an immediate or a near immediate finality of all payments without a close management of unresolved payments. This may result in increases in Fedwire payments and use of intraday credit. We would expect the intraday credit usage of depository institutions as a group to increase from current levels.

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?*

   Since the same collateral eligible for discount window borrowings will be used for daylight credit, it should not be difficult or costly to collateralize a major portion of daylight overdrafts. The same opportunity costs to pledge the collateral for discount window borrowings would apply.

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?*

   A potential impact of the adoption of this new PSR strategy on the availability of collateral for other financial market activity, other creditors and other payments system participants may vary, depending on a level of eligible collateral for discount window borrowings already pledged by an institution. Most likely, the impact on Wachovia would be minimal; however, if an institution must increase its level of eligible collateral for the use of intraday credit, then it would be required to reduce other financial market activity requiring collateral and secured credit facilities available for other purposes. This might potentially reduce the profitability of the institution. Since we understand that the Reserve Banks accept many types of assets for collateral and there is a sufficient level of available collateral in the market, the adoption of the new PSR strategy should not affect other financial market activity generally.

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)?*

   We would encourage the Reserve Bank to offer daily mark to market collateral value reports and the ability to move different types of collateral directly and quickly during the day.

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?*

   We currently have a borrowing agreement with the Reserve Bank.

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?*

   Generally, we would make every effort to make payments earlier in the day; however, if a receiving bank is known to hold payments due to lack of collateral and/or net debit cap, it would be possible for us to manage the payment queue accordingly by prioritizing payments going to institutions with sufficient collateral and by holding payments going to institutions without sufficient collateral to minimize liquidity, operational and credit risks.

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?*

    There may be a few changes in practices for returning early securities used in repurchase agreements. For example, many of those institutions who use clearing agents for repos are charged for intraday overdrafts by the agents today. Assuming that those institutions have sufficient collateral eligible for daylight overdrafts with the Reserve Bank, they may decide to fund their accounts with the agents very early to eliminate or reduce the intraday overdraft charges assessed by the agents. Further, assuming that lending institutions have sufficient collateral for daylight overdrafts with the Reserve Bank, an early return of securities may not be requested or the timing of the return may not be as early as today.

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?*

    We might see behavioral changes among market participants to return fed funds loans earlier than today's market practice. There would be a pricing incentive for the early return of fed funds loans if opportunity costs in holding collateral to accommodate the early return of fed funds loans were determined to be lower or a market participant had sufficient collateral pledged with the Reserve Bank.

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?*

Assuming that we have sufficient collateral eligible for daylight overdrafts, we would increase our collateral pledged with the Reserve Bank. It is also possible that we would continue to manage our payment queue to minimize fees for daylight overdrafts by emphasizing CHIPS over Fedwire and holding payments in liquidity queue.

Wachovia appreciates the opportunity to provide these comments in response to the Board's request. If you have any questions about these comments, please contact me.

Sincerely,

Eugene M Katz

Eugene M. Katz