J.P.Morgan

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Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue N.W.
Washington, DC 20551

Email: regs.comments@federalreserve.gov

Re: Potential Modifications to the Federal Reserve Banks' National Settlement Service and Fedwire® Funds Service to Support Enhancements to the Same-Day ACH Service and Corresponding Changes to the Federal Reserve Policy on Payment System Risk; Docket No. OP-1664

Dear Ms. Misback:

JPMorgan Chase Bank, National Association (JPMorgan) appreciates the opportunity to submit this response to the Board of Governors of the Federal Reserve System (the "Board") regarding its potential changes to the National Settlement Service (NSS) and Fedwire Funds Service (Fedwire) to support enhancements to the same-say ACH service and corresponding changes to the Federal Reserve Policy on Payment System Risk published in the Federal Register on May 16, 2019 (the "Proposal").

I. Overview

JPMorgan strongly supports the proposed changes to NSS and Fedwire. NACHA's proposed third settlement window for same-day ACH services was overwhelmingly passed last year as the financial industry works to meet the demands for faster interbank electronic funds transfers. Although we support these changes, we believe that reopening Fedwire at 9:00 PM ET is a critical requirement which supports the ability of U.S. financial institutions to provide USD payments services to clients in the Asia Pacific region. Changes to the threshold level for extensions, or the window to turn systems around for next day processing should be considered to the extent that these changes will support the 9:00 PM ET reopening of Fedwire.

The key considerations which we want to bring to your attention are presented in the discussion below. An appendix, which includes detailed comments to the questions you have raised in the Proposal, is also attached.

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II. Discussion

A. The proposed changes to NSS and Fedwire are necessary to meet market demand and allow for enhanced clearing and settlement services in both the ACH and Fedwire systems. JPMorgan agrees that the proposed changes set forth in the Proposal would yield a clear public benefit, as they would expand access to and adoption of same-day ACH, which would benefit both consumers and businesses having a need to send and receive same-day payments. The changes to NSS and Fedwire to support the third same-day ACH window would provide customers of all financial institutions, and west coast-based institutions in particular, new options for utilizing same-day ACH capabilities later in the day. Among other things, the third window will further enable consumers and businesses to make time sensitive payments, and receive faster credit for such payments.

B. In support of the proposed changes to NSS and Fedwire, JPMorgan believes that the industry must work to maintain the 9:00 PM ET opening of Fedwire and CHIPS (CHIPS is dependent on Fedwire being available for pre-funding). The current processing model has helped U.S. banks remain competitive with the local market in providing USD payment services to clients in the Asia Pacific region. For the banks that participate in the 9:00 PM ET Fedwire opening, this time for opening of the processing day is critical to providing these services.

C. JPMorgan expects that with the availability of extended Fedwire hours, clients will want to submit payments later than they do today. This late day activity will result in less margin for error and recovery when there are service disruptions late in the processing day. With less time to recover before the proposed 7:00 PM ET Fedwire closing, there may be an increase in the number of extension requests and/or an increase in the number of failed payments. An increase in failed payments will have a further downside client impact at beneficiary banks.

D. To manage the number of extension requests in the proposed expanded hours model, the threshold for extension requests should increase from the current $1 billion level, which has not been adjusted since 1997. Acknowledging industry concern with the proposal to increase this threshold to $5 billion, we would support a $2 billion threshold.

E. JPMorgan supports an industry benchmark to reduce the window between closing and reopening Fedwire to 90 minutes. However, we think that this could be implemented over time and not in conjunction with the rollout of the extended operating hours and any new threshold requirements for extension requests.

F. JPMorgan will be able to make internal system changes to account for the compression in time between NSS closing, the third-party cutoff and Fedwire closing before the targeted implementation in March 2021. These issues were extensively reviewed by the industry during the NACHA rulemaking process for the third same-day ACH settlement window. We believe that it is important for all industry stakeholders to commit to the March 2021 implementation date as soon as possible.

JPMorgan appreciates the opportunity to comment on these potential modifications to the Federal Reserve Banks' National Settlement Service and Fedwire Funds Service and welcomes the opportunity to discuss the points raised in our response. Should you have any questions, please contact Roy DeCicco at (212) 552-0731.

Sincerely,

Emma Loftus
Managing Director
Treasury Services

APPENDIX - JPMorgan Comments to Board Questions -

1. *How might institutions and their customers use a later same-day ACH window?*

   A later same-day ACH window would be utilized by banks and their customers to facilitate payments across all geographies, expanding same-day opportunities for originators and recipients on the west coast as well as in other time zones. The window would be used for termination pay, gig and emergency payroll payments, on-time and online bill payment transactions and batch files that missed previous windows. It will allow for same-day error recovery via reversals, provide receiving banks with opportunities to return unauthorized or unpaid debits (reducing impacts to balance sheet) and will result in earlier notification to originators of returned transactions.

2. *Would institutions and their customers use expanded hours of NSS and the Fedwire Funds Service for purposes unrelated to the later same-day ACH window? If so, how?*

   Large clients with late day payments activity (e.g. broker-dealer clients) will know that the Fedwire third party window is extended from 6:00 PM ET to 6:45 PM ET, and they may want to take advantage of this extended processing window. They may expect that part of this extended window be made available to them, resulting in large dollar payments being delivered and processed later in the day than the current payment flows. This will provide less margin for error and less recovery time when there are service disruptions late in the day. A potential consequence is that there may be an increase in the number of extension requests, especially if the dollar threshold for extensions is not increased. Any significant changes in client behavior will make historic data less reliable in predicting future trends.

   JPMorgan does not have any material concerns with the later NSS deadline from a check clearing and settlement perspective as the overall dollar value of late day check activity is not significant. Additionally, the check networks which use NSS will take into account the appropriate recovery time before determining opportunities to utilize later NSS settlement windows.

3. *What increased risks and costs might your institution and customers incur as a result of reduced time between the closing of NSS, the Fedwire Funds third-party cutoff, and the closing of the Fedwire Funds Service as outlined in Tables 1 and 2?*

   The increased risk which we are most concerned about is the risk of delaying the 9:00 PM ET opening of Fedwire and CHIPS. The proposed closing timeframes and turn around window – i.e. close at 7:00 PM ET and open for next day at 9:00 PM ET – provides for a two hour timeframe for the Federal Reserve and the early opening banks to be ready for a 9:00 PM ET opening. Fedwire extensions may reduce this window and potentially put the 9:00 PM ET opening at risk.

   Our understanding is that over the last 4 years, there have been 4 Fedwire extensions past 7:00 PM ET; there have been 46 extensions which go past 6:30 PM ET. If this trend continues, or gets worse with the later close, the 2 hour turnaround window will become 90 minutes - or less - several times a year, and increases the possibility of more delayed openings of Fedwire and CHIPS.

The FRB analysis of recent data indicates that with a 7:00 PM ET close, delays to reopening, which today average one per year, could increase to twice per month. JPMorgan believes that this is unacceptable and would be detrimental to the U.S. payments market. The industry has worked with the Federal Reserve over many years to open the U.S. RTGS payments infrastructure earlier – now 9:00 PM ET - so that service providers in the U.S. can compete effectively with off-shore USD clearing markets in Asia. The value the U.S. industry has developed over many years in meeting the needs of clients in Asia Pacific will be harmed if the U.S. payments markets have a delayed opening 2 times a month, or more frequently, and this must be avoided.

4. *What changes to internal processes or technologies (if any) would your institution need to make to adjust to any of the reduced windows outlined in Tables 1 and 2? Approximately how long would it take for your institution to implement any necessary changes?*

   JPMorgan believes that any changes to internal processes and/or technology are minimal and could be accomplished in 6 months.

5. *If your institution typically makes payments during the first hour of the Fedwire Funds Service business day, what would be the consequences of delaying the reopening of the Fedwire Funds Service? Are the consequences more significant for certain types of payments? Are there steps your institution, the Reserve Banks, or others could take to reduce those consequences?*

   JPMorgan makes payments during the first hour of Fedwire and CHIPS opening of their business day. We believe that it is important to include CHIPS when considering the impact of a delayed Fedwire opening because CHIPS requires Fedwire to be open for funding purposes before it can open for early processing at 9:00 PM ET. The consequences of a delayed Fedwire opening, beyond a rare – one time per year – event, would be significant. It would degrade the U.S. payment systems' ability to meet client expectations in the Asia Pacific market, and could make USD less attractive for transactional use in that market. The risk is that third party client USD payments traffic originating from the Asia Pacific market or for beneficiaries in the Asia Pacific market may be diverted to off-shore USD clearing systems established in that region, or alternatively, could push the clients to use other currencies.

   As cited in the answer to question #3 above, in making the changes necessary to accommodate the third same-day ACH settlement window, the industry should not put the 9:00 PM ET early opening of Fedwire and CHIPS at risk.

6. *How might the proposed compressed end-of-day timeline increase the frequency with which institutions request that the Reserve Banks extend the operating hours of the Fedwire Funds Service?*

   The proposed end of day compression plus the anticipated increase in late day third party/client payments traffic due to client behavior changes driven by the later 3rd party cutoff may increase the frequency with which institutions request Fedwire extensions. The historic data on extensions will no longer be relevant indicators given these factors. There is simply less time to recover from disruptions, and this will lead to more extension requests unless other actions, such as an increase to the dollar threshold for extensions, are taken.

7. *Should the Reserve Banks update their criteria for extending the closing time of the Fedwire Funds Service to include a higher value threshold? If so, would a $5 billion threshold be appropriate? Would your institution need to make any operational changes to adjust to a $5 billion threshold?*

JPMorgan believes that a higher threshold would be appropriate to manage the overall number of extensions. No operational changes would be required to adjust to a higher threshold.

We understand that several of our peer bank colleagues prefer to retain the $1 billion threshold; we suggest that an important consideration in any decision on the threshold level is the fact that the $1 billion threshold has been in place since 1997. According to the Bureau of Labor Statistics Consumer Price Index, prices today are 59.56% higher than they were in 1997. $1 billion in 1997 is worth almost $1.6 billion today. An acceptable compromise between the current $1 billion threshold and the proposed $5 billion threshold may be to adjust the current threshold for inflation and round it up to $2 billion. JPMorgan would support a $2 billion threshold because it may help reduce the number of extension requests in the proposed extended hours scenario and avoid some of the friction the market may experience with reliably maintaining the 9:00 PM ET opening of Fedwire and CHIPS.

8. *Should the Reserve Banks update their criteria for extending the closing time of the Fedwire Funds Service to reduce the targeted two-hour window between the closing and reopening of the Fedwire Funds Service? Why or why not? Would a window of 90 minutes (or some other period) between the closing and reopening of the Fedwire Funds Service provide sufficient time to perform end-of-day processes at your institution? What operational or technical changes would your institution need to make (if any) to adjust to a reduced window?*

JPMorgan supports the targeted two-hour window between the closing and reopening of Fedwire. In a "BAU" environment (with no extensions), the two hour window provides our firm some cushion to complete the end-of-day requirements and turn our systems around for a 9:00 PM ET reopening.

However, over the longer term, the Reserve Banks should update their criteria for extensions to reduce the targeted two-hour window between the closing and reopening of the Fedwire. We support establishing a 90 minute window as an industry benchmark. The industry objective is to preserve the 9:00 PM ET reopening of Fedwire. In the proposed processing model, a 90 minute turnaround window will provide a sufficient timeframe for JPMorgan to perform end-of-day processes, and close and reopen when there are extensions to Fedwire not exceeding 30 minutes. We do not anticipate any technology changes to work with a reduced window; minor operational changes will be necessary.

It is appropriate to note that there is an ongoing industry dialogue to consider a 24 hour Fedwire processing day. This discussion is in early stages; any progress with this initiative will impact the movement to establish a 90 minute turnaround window, as well as the need for value thresholds for Fedwire extensions.

9. *Given the risks of more-frequent delays to the reopening of the Fedwire Funds Service, should the Federal Reserve simultaneously raise the value threshold for extensions to $5 billion and reduce the window between the closing and reopening of the Fedwire Funds service? Why or why not?*

   To reduce the risk of more frequent delays in reopening Fedwire, JPMorgan supports both an increase in the value threshold for extensions and the reduction of the window between closing and reopening Fedwire to 90 minutes.

   However, the changes do not need to occur simultaneously. The immediate priority is to raise the value threshold for extensions. An industry standard to reduce the turnaround window to 90 minutes, which only impacts banks that are active in the early opening hours (9:00 PM ET), should be established as soon as feasible. The 90 minute window between the closing and reopening of Fedwire will be valuable when there are extensions of 30 minutes or less.

   We support both of these changes because it is important to maintain the U.S. industry's ability to remain competitive in the global payments market by preserving the 9:00 PM ET reopening of Fedwire and CHIPS, even with the implementation of the compressed timeframes.

10. *If your institution would need to implement changes to adjust to a $5 billion threshold or a reduced window between the closing and reopening of the Fedwire Funds Service, when would your institution be ready to implement those changes? If your institution is not ready to implement any required changes by March 2021, which is NACHA's current effective date for implementing the later same-day ACH window, should the Federal Reserve delay implementation of the proposed changes to NSS and the Fedwire Funds Service? Why or why not?*

    JPMorgan will be ready to implement any necessary changes by the March 2021 date to implement the later same-day ACH window. Given the value this extended window will provide to the U.S. payments ecosystem, we think that it is important for the industry to commit to the March 2021 date. The industry will benefit from as much advanced notice as possible, and we encourage the Federal Reserve to advise the industry that this effective date is firm as soon as feasible.

11. *Are there any other potential benefits, consequences, risks, or costs that the Federal Reserve should consider when evaluating the adoption of the proposed changes to NSS and the Fedwire Funds Service, including potential risks to financial stability? If so, please provide a description.*

    While we support a higher threshold for extensions, we recognize that any bank's inability to send Fedwire payments on value date will have a downside third party client impact at the beneficiary banks. Anticipated funds will not be received, and if the anticipated funds are "cover" for other outbound transactions, additional payments will not be made on the value date.

We also see potential consequences of late day flows, as clients request use of the extended Fedwire third party processing window. More value, potentially significant dollars, may flow later in the day. If this happens, there will be less of a recovery cushion when there are service issues or disruptions at either the client, the client's processing bank or at the Federal Reserve. With less time to recover before the proposed 7:00 PM ET Fedwire closing, there may be an increase in the number of extension requests or an increase in the number of failed payments, even with a higher threshold.