BANKERS' BANK OF THE WEST

July 15, 2019

Via Email: regs.comments@federalreserve.gov
Ms. Ann Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Regarding Docket No. OP-1664, Potential Modifications to the Federal Reserve Banks' National Settlement Service and Fedwire® Funds Service

Dear Ms. Misback;

Bankers' Bank of the West ("Bank") appreciates the opportunity to comment on the Federal Reserve Bank's potential modifications to the National Settlement Service ("NSS") and Fedwire® Funds Service ("Fedwire"). Bankers' Bank of the West is supportive of extending the operating window for the NSS and Fedwire as proposed in the May 16, 2019 Federal Register Notice.

Introduction

Bankers' Bank of the West has been a partner to hundreds of community financial institutions for nearly 39 years, providing solutions across all U.S. payment systems, allowing those financial institutions to remain competitive as the market evolves, while maintaining a proud legacy as a champion of community banking. Community financial institutions have relied on bankers' banks, corporate credit unions, and other correspondent service providers (collectively "correspondent providers") as trusted partners and service providers. Bankers' Bank of the West is one of 12 bankers' banks in the nation that collectively serve the correspondent banking needs of approximately 5,000 community financial institutions across the U.S. Part of the role played by Bankers' Bank of the West with its customer community financial institutions is in access to domestic and international wire transfer networks and ACH origination.

Key Issues and Questions from the RFI

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

Originating Depository Financial Institutions ("ODFI") that are able to submit same-day ACH transactions later in the business day will especially benefit customers located in the western time zones (Mountain, Pacific, Alaskan, and Hawaiian-Aleutian). For these financial institutions, the current NSS deadline of 5:30pm ET only provides access for same-day transaction through half of their business day. This puts them at a perceived disadvantage by only having access to the second Same Day ACH window (5:00pm ET settlement) during business hours, while East Coast ODFIs can submit transactions in two Same Day ACH windows.

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Extending the NSS operating hours to facilitate a third Same Day ACH window provides those ODFIs in the western time zones with a second processing window in the business day to service their customers later into the day. The Receiving Depository Financial Institutions ("RDFI") will have to adapt to this new expectation but should be less of an impact in the western time zones that will experience greater benefit.

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?*

Community financial institutions would not likely use the NSS for purposes unrelated to the later same-day ACH window. However, the expanded hours for Fedwire would likely be used as part of a financial institution's liquidity management. Correspondent providers often provide intra-day and overnight liquidity to community financial institution customers through access to the Federal Funds market as a source for overnight borrowing and a resource for selling overnight excess liquidity. With a later NSS window, financial institutions will have to evaluate balances and liquidity needs later in the day if not utilizing some form of sweep service and may rely on Fedwire services to move funds to or from a correspondent provider to meet liquidity needs. The correspondent providers themselves may move funds in and out of the Federal Funds market to balance liquidity needs and investment opportunities for their community financial institution customers.

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?*

As a correspondent provider, the Bank's current operating hours are 7:30am MT to 4:30pm MT. Expanding the windows for the NSS and Fedwire will result in extending these hours by 30 minutes. This can be accomplished by modifying the schedules of existing staff, completing internal programming changes through normal development procedures, and not result in any significant cost to the Bank.

Financial institutions may incur additional interest expense from increased overnight borrowing or other funding sources to insure adequate liquidity given the later settlement time that would likely exceed any offsetting interest income on the higher balances at the Federal Reserve or correspondent providers or create opportunity costs from the increased liquidity by not being able to deploy that liquidity. By not incurring the expense to insure adequate funding, the financial institutions take on additional liquidity and settlement risk. This risk may be passed up to correspondent providers that provide intra-day and overnight liquidity to community financial institution customers.

The Bank's community financial institution customers are located in the Central, Mountain, and Pacific time zones. Those in the Central time zone do so within the current operating windows of the Bank, the NSS, and Fedwire. A change to the operating hours of the Bank or Fedwire are not expected to have a significant impact, though some community financial institutions may feel the need to extend some operational hours from 5:00pm CT to 5:30pm CT as a result of the change to the NSS but would be expected to accomplish this through modified schedules. For customers in the Mountain and Pacific time zones, little to no change in scheduling is expected to be necessary.

No other costs would be expected to be incurred by community financial institution customers, unless they operate on some proprietary or customized system or other programming that requires modification to the hours. This would likely be a one-time cost.

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?*

For Bankers' Bank of the West, it would potentially require some modification of internal programming and/or working with key service providers to ensure any changes on their end are completed to accommodate the expanded NSS and Fedwire. Such work would be expected to be completed and implemented within 90 days.

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?*

While Bankers' Bank of the West supports extending the operating hours of the NSS and Fedwire, there are some payments and settlement transactions that occur within the first hour of the Fedwire business day. The first-hour volume experienced by the Bank is related to transactions settling for its community financial institution customers. Based on a sample of first-hour volume, it is expected that the Bank would have adequate liquidity available at the Federal Reserve Bank to accommodate this, but there is a risk that on a day with a lower balance and an especially high day of first-hour transactions could result in an overdraft.

The Bank also acts as an agent for overnight Federal Funds transactions for its community financial institution customers. Currently, many are directing funds to the Federal Reserve Bank's Excess Balance Account. Those funds are moved from that account back to the Bank shortly after Fedwire opens for the new business day, providing the Bank some interim liquidity to accommodate first-hour transactions, if necessary.

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?*

A compressed end-of-day timeline is not expected to increase the frequency for extended Fedwire operating hour requests by the Bank or its community financial institution customers. Given the current asset-based measure, the Bank (and most of its customers) are not eligible to request an extension, so there would be no change unless the criteria to allow for a request. Even if that were to happen, it is not expected that many, if any, requests would be necessary.

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?*

In terms criteria for extending the closing time, the notice lists the current $1 billion threshold, but asset size should be not the measure used to determine eligibility. Financial institutions are conveniently classified by size, but due to a variety of activities that do not translate to assets on the balance sheet, such as wire transfers, it is not the appropriate means by which to measure.

For example, Bankers' Bank of the West will report $367 million in total assets on its Call Report for June 30, 2019, but during the month of June, processed nearly 5,400 outgoing domestic wires, 1,000 outgoing international wires, 1,600 outgoing settlement transfer wires, and 7,400 incoming wires (both domestic and international). In addition, due to some of its services, the Bank has assets under management in excess of $5 billion but remains ineligible to request an extension.

Employing a metric based on a financial institution's wire volume to allow for community financial institutions to have more equitable access to the system via their correspondent and core system providers. An increase in the number of extensions requested is a valid concern of the notice but modifying the criteria for which financial institutions might be able to make such a request does not necessarily indicate there will be a significant change in the number of extensions per year.

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?*

Bankers' Bank of the West believes a 90-minute window between the closing and reopening of Fedwire to be adequate, and allows for the occasional extension request, generally without impacting the reopening time. Maintaining the two-hour window may result in more delayed openings, which increases liquidity risks for those financial institutions with significant first-hour transactions.

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?*

As previously stated, asset size is not the best measure for such eligibility and should be based on a financial institution's wire volume.

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?*

A $5 billion threshold would not impact Bankers' Bank of the West unless it were modified to reflect assets under management. Utilizing the NACHA effective date of March 2021 would provide the Bank adequate time to prepare for the changes to Fedwire.

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.*

Change always brings about risk. Expanding the closing of NSS and Fedwire, financial institutions will have to adapt to the new normal. Each will approach it different in terms of staffing and management which will create liquidity and settlement risk for some and increased interest expense or opportunity cost for others. As customer expectations and transaction volumes become familiar, this risk would be expected to decrease. The costs, as noted above should not be significant in terms of personnel or development, but financial institutions will incur some additional cost for processing costs for the additional files.

A key benefit to this change is that it helps to move the U.S. payment system further along the continuum to faster payments. This further helps build the infrastructure by which the Federal Reserve Bank can play an expended role in terms of 24x7x365 payment settlement and acting as a continuous source of liquidity in support of the overall payment system.

<u>Conclusion</u>

Bankers' Bank of the West supports the proposed extensions to the NSS and Fedwire and recommends modification criteria by which a financial institution might request an extension to be volume based rather than dependent on the asset size financial institution.

Bankers' Bank of the West appreciates the opportunity to comment and share our thoughts on this matter. If you have any questions or would like additional information or to discuss our comments in further detail, please do not hesitate to contact BBW at (303) 291-3700.

Sincerely,

WA Mitchell Jr.

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