

# AMERICAN BANKERS ASSOCIATION, ALISON TOUHEY

## Proposal and Comment Information

Title: Request for Information and Comment on Operational Aspects of Federal Reserve Bank Extensions of Discount Window and Intraday Credit, OP-1838

Comment ID: FR-0000-0137-01-C111

## Submitter Information

Organization Name: American Bankers Association

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Attached please find ABA's comment letter in response to the Request for Information and Comment on Operational Aspects of Federal Reserve Bank Extensions of Discount Window and Intraday Credit [OP-1838]

December 9, 2024

Ann E. Misback  
Secretary  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue, NW  
Washington, D.C. 20551

Re: Docket No. OP-1838; Request for Information on Operational Aspects of Federal Reserve Bank Extensions of Discount Window and Intraday Credit

Dear Ms. Misback:

The American Bankers Association (ABA)<sup>1</sup> appreciates the opportunity to comment on the Federal Reserve's Request for Information on Operational Aspects of Federal Reserve Bank Extensions of Discount Window and Intraday Credit (RFI), which seeks information on questions related to the operational aspects of Federal Reserve Bank (FRB) extensions of discount window and intraday credit. The RFI solicits information on existing operational frictions or inefficiencies, ways such frictions or inefficiencies can be resolved, and if they are particularly acute for FHLB members or smaller institutions.

ABA supports this inquiry and appreciates the Federal Reserve's willingness to understand and improve upon the frictions and inefficiencies banks of all sizes face when using the discount window. We acknowledge and appreciate the work the Federal Reserve is already doing to advance the functionality of the discount window, including automation of some of the official authorization lists, incorporation of DocuSign and incorporation of the Discount Window Direct service through FedLine. We encourage the Federal Reserve to continue working towards faster, more automated and streamlined processes. As this work progresses, it is important to ensure that, to the extent possible, the changes and improvements align with existing market practices, technology and infrastructure, and that over the course of the initiative input from banks and other stakeholders is frequently sought.

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<sup>1</sup> The American Bankers Association is the voice of the nation's \$23.9 trillion banking industry, which is composed of small, regional and large banks that together employ approximately 2.1 million people, safeguard \$18.8 trillion in deposits and extend \$12.5 trillion in loans.

In writing our response, ABA consulted the breadth of our membership, which includes banks of all sizes, to identify areas of improvement and suggest solutions that are workable for all banks. To a large extent, ABA members' experiences depend on which Federal Reserve Districts they are in, with some districts being more communicative and efficient than others. The comments below are meant to be applicable across the system.

Overall, ABA members feel that the discount window processes and operations are opaque, awkward and inefficient. This sentiment is driven by technology that significantly lags what is considered standard for 2024, an inability to easily transfer collateral, a seeming lack of meaningful coordination between the supervisory and discount window lending functions, and inconsistencies among FRBs and with private sector practices. These factors combine to create significant operational inefficiencies and administrative burdens. To make the discount window more workable, the Federal Reserve will need greater transparency and communication with respect to collateral pledging and valuation, more coordination and consistency of process across both the Federal Reserve System and with other liquidity providers, and significantly enhanced technological capabilities.

As a threshold operational matter, ensuring the fast and efficient movement of collateral to and from the discount window should be a priority. Virtually all banks noted the difficult and slow processes required to transfer collateral to and from other liquidity providers, particularly the Federal Home Loan Banks (FHLBs). Banks reported, for example, that the return of collateral from Bank Term Funding Program (BTFFP) funding took several days to be released after the advance was repaid. It is essential that the discount window is able to quickly accept collateral for borrowing and efficiently unwind the advances. We urge the Federal Reserve to consider adopting clearing and settlement solutions available in the private sector, including a move toward delivery versus payment (DvP) settlement.

With respect to the transfer of collateral between FRBs and FHLBs, the primary constraints that make it operationally challenging and time consuming for all banks to move collateral between the two are different eligibility criteria for collateral and different formats for the collateral tape. Borrower in Custody (BIC) adds administrative complexity. We recommend that, to the extent possible, the Federal Reserve align its criteria and processes with those of the FHLB. We also understand that in several cases FHLBs and FRB pairs are working together to come up with subordination and other processes that allow for a more seamless transfer of collateral. We encourage the development of standard agreements and processes that can be used across both the FHLB and Federal Reserve systems regardless of specific FHLB and FRB membership.

Equally important is ensuring that funds are available in real time throughout the business day, regardless of the time zone in which a bank is located. We note that the speed and timing of funding availability varies by district, as some banks indicate that their FRBs have allowed closer to real time funding availability. Many banks report, however, that based on their testing experiences, funding isn't available until the end of their FRB's day. We recommend that the discount window operate until at least 6pm PST.

As a threshold policy and supervisory matter, greater clarity is needed from the banking regulators on when the discount window and other sources of contingent liquidity may be used,

and how they coexist through normal course and stress. For example, from a supervisory perspective, discount window usage is considered a major failure of liquidity management, yet that is not the policy message conveyed publicly by agency principals. For example, Vice Chairman Barr has stated that banks should look to the discount window for normal course borrowing.<sup>2</sup> This is a significant disconnect that needs to be clarified for banks as well as their counterparties, investors and other stakeholders.

Similarly, while we understand the RFI is not focused on policy considerations, the interplay between the discount window and the FHLBs needs to be fully considered as the Federal Reserve goes forward. Both channels are designed to serve banks' funding needs in essential ways that are not interchangeable, and changes to the discount window or related policies should not seek to create advantages or disadvantages for either channel. If such changes are needed they must be made by Congress, the Federal Housing Finance Agency (FHFA) and the banking agencies after careful consideration, coordination, and stakeholder engagement. ABA and our members would welcome further discussion with the Federal Reserve on these issues.

Below are technical recommendations regarding set-up and operations, pledging and collateral management and intraday credit and overdrafts.

## **Discount Window Set-up and Operations**

### Provide more support during initial set-up

Given the recent supervisory focus on the discount window, many smaller banks have gone – or are going through - the process of initial set-up to ensure operational readiness. Several banks that did so report that the process is confusing, lengthy and resource intensive, often taking 3-6 months and requiring significant financial outlay and staff time. ABA members identified two areas of operational and administrative burden: management information system set-up and storage and paperwork certifications. Regarding set-up, smaller banks found it expensive to acquire and set up proper equipment. Additionally, banks noted the initial set-up process entailed expertise, paperwork and certifications that were not available internally, thus necessitating outside consultants, auditors and lawyers. To mitigate these burdens, we recommend that the Federal Reserve offer more transparent and consistent support across FRBs, ensuring there is adequate expert Fed staff available to answer questions and otherwise be of assistance. Other recommendations throughout the letter, such as those regarding a more automated and efficient process will also serve to reduce the cost and administrative burdens of initial set-up.

### Expand hours of operation

As noted previously, there is currently a mismatch between when a bank needs liquidity and the speed at which the Federal Reserve supplies the funds. For example, the current east coast-centric operating hours of Fedwire do not meet all banks' liquidity needs in today's global, 24/7 operating environment. The timing mismatch is particularly acute for west coast banks, which

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<sup>2</sup>Barr, Michael. *Supporting Market Resilience and Financial Stability*. 2024 U.S. Treasury Market Conference, Federal Reserve Bank of New York.

have limited sources of liquidity available in the afternoon, as east coast markets close, making the discount window virtually the only source of afternoon liquidity for west coast banks. Moreover, the timing of other funding providers such as the repo markets, correspondent banks and the FHLBs is not always aligned with that of the discount window so that collateral cannot be easily and quickly moved to the FRBs from other providers. At a minimum, the hours when collateral can be placed, and funding made available, should be expanded to include west coast business hours. We recommend that the discount window operate until at least 6pm PST.

As mentioned in our response to the Federal Reserve's proposal to expand Fedwire, expanded hours are essential to ensure banks have access to adequate funding sources, Fedwire® Funds Service and NSS from the conventional five-day work week, excluding weekends and holidays, to be live 365 days a year.<sup>3</sup> Extending the hours of the discount window will also require the Board to update its staffing plan to ensure that financial institutions that need access receive access in a timely and efficient manner.

#### Accept electronic signatures

Requirements for banks to mail wet ink signed copies for legal documents are inefficient and inconsistent with market practice, as most banks do not require wet signatures. The process would be more efficient if banks could submit signed documents online via email or DocuSign/Adobe Acrobat Sign.

#### Automate and simplify the process for pledgors' authorized transactors

The FRBs should provide written guidance that clearly articulates whether collateral must be pledged by a bank officer, or whether it is permissible for a non-officer granted power of attorney to pledge collateral. Adding one individual to the authorized transactors list right now requires notarized original wet signatures of all authorized parties in one document to be physically sent into FRB for processing. We recommend that the Federal Reserve modernize the OC-10 authorization process, by allowing users to be added in real time, via online portal. Additionally, we recommend that the Fed simplify the process for overseas bank employees to access FedLine. Overseas bank employees are currently treated akin to third-party legal entities when seeking FedLine web access, which adds operational complexity and burden.

### **Pledging and Collateral Management**

A faster and more efficient process for pledging, valuing and de-pledging collateral is imperative for enhanced discount window functionality. Overall, banks find the pledging process to be opaque and overly reliant on Excel and the telephone. Further, banks report that the parameters and expectations are often unclear and it is difficult to obtain information or answers. ABA members understand that there are handbooks and that additional information is available online, however many banks have found the information lacking and hard to piece together. For example, banks note that the information provided by the Fed on criteria and loan requirements

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<sup>3</sup> [ABA Letter to the Board on Fedwire and the National Settlement Service Proposal](#). September 4, 2024.

is vague and that the instructions and process doesn't accommodate different means of booking and storing loans.

Additionally, banks must submit borrowing requests via a lengthy form and wait for the Fed to call back. Banks face these burdens each time they add new collateral, which can take 6-12 weeks. Relatedly, there is a lack of transparency and consistency with respect to valuation of collateral, how the value is assigned, and when, how and why a valuation changes, and thereby banks' borrowing capacity.

To mitigate these inefficiencies, we recommend that the Federal Reserve continue to enhance automation, move to delivery versus payment (DvP) for securities settlement, and develop an enhanced borrower interface that relies less heavily on email and telephone. Additional recommendations are below.

#### Enhanced detail and support for pledging collateral

We recommend that the FRBs provide more detailed and explicit procedures for pledging, use common templates and clear guidelines that are available online and incorporate a mechanism that provides greater transparency on valuation, and by extension advance amounts. To the extent possible, we recommend that the FRBs reduce reliance on FRSecure email by making the aforementioned pledging procedures, guidelines, collateral attribute requirements and loan data relationship tests available online. This would help improve transparency and reduce the necessity for often time-consuming back-and-forth correspondence between the FRB and a member bank. Correspondence which expires after 21 days, reduces a bank's ability to rely on Fed responses and guidance to inform future collateral pledges. For example, it would be helpful if the Federal Reserve could be more exact about specific types of loans (e.g., what is required if consumer loans are pledged versus commercial loans). Ideally, and to the extent possible, any templates or required data fields would align with supervisory data. It would also be beneficial to create a centralized and consistent collateral eligibility process, adopting key criteria that are universally applied across the FRBs.

#### Develop and implement a more efficient and accessible pledging and collateral management process

Regarding enhanced automation and innovation, bankers suggested that the pledging process could be improved by making an Application Programming Interface (API) able to retrieve data from FedLine Advantage, in real time. A marketable security traded on an electronic market, for example, should be able to be pledged electronically and posted to the availability of the bank's account with that availability seen on a portal or Fedline. Additionally, getting automated emails that contain daily reports such as changes in collateral, daylight overdraft, and material changes in accounts will assist banks in identifying errors. Currently, banks must log in to check that the data in FedLine Advantage is correct and, in some cases, may reflect a materially incorrect availability.

We also recommend implementing a process that allows banks to upload their list of collateral, the Fed system releases back through FedLine and the bank have the ability to see all historical

collateral holdings data within the platform, not just the past five days. Below are additional recommendations.

#### Additional staff support and dedicated subject matter experts

Making available more expert staff dedicated to onboarding and pledging new collateral would aid in reducing burden for all banks, as would a designated group of subject matter experts who can help banks with loan specific questions and issues. We would recommend a system wide approach to ensure consistencies across FRBs. We also recommend making more staff available during onboarding and when pledging new collateral, which would aid in reducing burden, as would additional staff to answer questions and otherwise offer help with loan specific questions and issues. Additionally, we recommend a dedicated team that can be contacted to advise on settlement status. Banks report instances when there have been significant delay in recalls, and the discount window hotline for discount window was not particularly helpful in providing meaningful information.

#### Allow rollover of advances

Banks should have the ability to roll a borrowing over to the next day, instead of fully repaying the next day, then drawing down again the following day.

#### *Pledging Securities*

#### Move to a DvP model

Given the widely used and well established private market practices for clearing and settlement of securities, it is unclear why the settlement of securities should be so lagged at the discount window. We recommend that the Federal Reserve update its system to allow instantaneous release of collateral, on a partial or whole basis, once an advance is paid back. Additionally, we encourage the Federal Reserve to leverage existing infrastructure to expand collateral pledging rails to facilitate pledges post Fedwire Securities cut-off (e.g. triparty collateral arrangements).

#### Provide faster and more transparent valuation and assignment of lendable value

ABA member banks report that valuation of newly pledged securities is not always clear or readily assigned, sometimes taking 1-3 days for the valuation. And, until a price is set, securities receive zero lend value, causing delays in executable borrowing capacity. Relatedly, banks cannot accurately ascertain what lend value will be provided by the FRB until the asset is pledged, when the bank only sees the current outstanding balance of the pledged asset and the lend value on the FRB statement, without visibility into the assigned market value and haircut.

Due to the wide haircut ranges on collateral, we recommend that the Fed provide more clarity and substantive guidance on the value that the collateral will receive. We also recommend additional and quicker communication regarding ineligible collateral that needs to be removed.

### Provide increased clarity on the 7am repayment window

Currently it is difficult to find information regarding the 7am repayment window or know when the loan amount is debited back or if it is available.

### Enhance automation for pledging/unpledging securities

One source of inefficiency is manual validation of individual pledged or unpledged , which is done over the phone. When unpledging over the phone, the caller must read out every line item that is being unpledged to the Fed representative. Even when there is consistent data across all securities being unpledged – sending account, receiving account, routing numbers – it all has to be read out to the Fed representative. Then, the Fed representative repeats the data back to the caller to verify that they input the data correctly to their system. Once all unpledging data is ingested, the representative calls another authorized person to verify all line items – one by one- in the same manner of reading out all the details per line item to confirm the transaction.

### Modernize recalling of securities

Currently, recalls of securities can only be instructed via the Fedline terminal from a physical office and cannot be instructed remotely. Similarly, even with the roll-out of Discount Window direct, a borrower cannot be placed remotely and two individuals are required to place the borrow via the Fedline terminal from a physical office. Considering today’s hybrid environment, the Federal Reserve should align with modern business practice and allow recalls/borrows to be placed electronically and remotely.

### *Pledging Loans*

#### Modernize file acceptance

The loan pledging process should be more flexible and aligned with how banks do business. Currently, ABA members feel that the Federal Reserve’s file acceptance is very outdated, requiring a lot of manual intervention. Moreover, FRBs don’t use the same loan files as banks and other liquidity providers. As mentioned throughout this letter, to the extent possible, we encourage the FRBs to align with banking and private sector practice. For example, the FRBs should take into account that a bank who is not the agent for a syndicated loan would not have the original, physical copies of scanned pages to either destroy or securely store.

Banks would also appreciate the ability to upload the text file for review to ensure any issues with data attributes are resolved prior to submission which will help eliminate the back and forth with the Fed when there are issues that need to be resolved, impacting the pledged value

### Provide clarity on when loan collateral has been accepted/depledged

We recommend a better process for confirming receipt of pledging documents to execute a pledge or de-pledge of loan collateral. Currently, when submitting pledge documents, a bank submits files into a drop box but there is no confirmation that the FRB has received the

documents. Additionally, there is no confirmation from the FRB that the pledge was accepted and executed. The bank must check FedLine periodically to see if the pledged loans have been updated. Sometimes notifications are not provided when there is an issue with the submitted document, which then requires banks to call the FRB to determine the reason for the delay in processing. This process could be improved if banks received notice of accepted and executed documents or if there is an issue with our submission.

#### Leverage supervisory data and regulatory reporting

We recommend that the Federal Reserve significantly improve coordination and collaboration between discount window operations and the supervisory function to better leverage call report and supervisory information when valuing collateral and considering a bank's condition. Many banks, particularly smaller banks, find the many duplicative processes in place today to be inefficient and burdensome.

#### **Intraday Credit and Overdrafts**

##### Streamline and simplify net debit cap process

The process for setting net debit caps, which is paperwork intensive and overly cumbersome, is another area ABA members cited as needing improvement. We recommend that the Federal Reserve streamline and simplify the net debit cap process to mitigate the administrative burden. For smaller banks we recommend that resolutions not expire unless there is a change. In addition, all banks would benefit from, greater flexibility around the date on which the Board approves the credit net debit cap, which expires annually. We recommend extending the expiration of a bank's board resolutions until the end of the month of the date that is one year after the date that the bank's board approved the resolutions. To illustrate, if a bank's board of directors approved the net debit cap resolutions on July 6, 2024, their resolutions would currently expire on July 6, 2025; we recommend that such resolutions instead expire on July 31, 2025. This would accommodate banks' board meeting schedules, which often change, and prevent undue complications as a bank approaches the expiry of its resolutions.

Additionally, as recommended elsewhere, we encourage the Federal Reserve to leverage available supervisory and reporting data for discount window related purposes. For example, the Fed should conduct reviews of call reports and other financial data to give them confidence about the creditworthiness of the banks and the value of the assets. One area that is working for smaller institutions is the de minimis capital approach, which is based off of a bank's call report information.

#### **Validation/Recertification/Monitoring**

Regarding validation and certification of collateral, many banks noted an often burdensome processes. We recommend more granularity about requirements to accommodate cases where information doesn't change frequently, and request that the validation and certification process be moved to either the first or second quarters to avoid the current end of year crunch.

## Other Recommendations

### Discount window or Fed Services operational surveys

As the Fed has done for other things, ABA recommends the Fed put together a quarterly publicly available survey of banks' operational personnel pertaining to the use of the DW or other Fed Services directly or indirectly tied to the discount window.

### More "ask the Fed" webinars

We appreciate the "ask the Fed" webinars to educate banks, and suggest additional ones that focus on certain areas, for example pledging 1-4 family mortgages. That these are webinars recorded and the ability to watch them back at the convenience of the user is an added benefit.

### Additional training and resources on new platforms

The Federal Reserve should provide training and resources when an entity is working to go live on a new Federal Reserve platform that facilitates depledging securities. Currently, while trying to stand up a new platform for the discount window, there is no training provided on how to use the platform and what type of information would be needed to set up and utilize the new platform. Instead, while in the process of standing up the online *Fedline Advantage Securities* platform, only a PDF with screenshots of the program is provided and meetings with the SYS WTS customer testing team do not include training. Additional information, such as how to create a message, how to submit a message in bulk, or how to set up account data in the system, would be helpful and reduce the number of failed attempts and dialogue with the customer testing team. Providing training and improving the resources available would reduce or eliminate delays in going live with the platform.

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Meaningful improvements to the discount window will take significant care and effort, and collaboration with a number of stakeholders. We support the RFI and encourage the initiative, to which ABA and our members are ready to lend our best efforts. Thank you for considering the comments and recommendations set forth in this letter. If you have any questions or need further information, please do not hesitate to contact the undersigned at [atouhey@aba.com](mailto:atouhey@aba.com); 202-663-5182 or Jeff Huther at [jhuther@aba.com](mailto:jhuther@aba.com); 202-663-7691.

Sincerely,

Alison Touhey  
SVP, Bank Funding  
American Bankers Association