

FEDERAL RESERVE SYSTEM

Docket No. OP-1796

AGENCY: Board of Governors of the Federal Reserve System.

Modifications to the Federal Reserve Policy on Payment System Risk to Accommodate Enhancement to the Automated Claim Adjustment Process

ACTION: Notice

SUMMARY: The Board of Governors of the Federal Reserve System (Board) is revising part II of the Federal Reserve Policy on Payment System Risk (PSR policy) to add a posting rule to facilitate the implementation of enhancements to the Automated Claim Adjustment Process (ACAP).

DATE: *Applicability Date:* January 30, 2023

FOR FURTHER INFORMATION CONTACT:

Jason A. Hinkle, Deputy Associate Director (202-912-7805) or Benjamin J. Hobbs, Senior Financial Institution Policy Analyst (202-872-7549), Division of Reserve Bank Operations and Payment Systems. Cody Gaffney (202-452-2633), Senior Attorney, Legal Division, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, Washington D.C. 20551. For users of TTY-TRS, please call 711 from any telephone, anywhere in the United States.

SUPPLEMENTARY INFORMATION:

I. Background

Part II of the PSR policy governs the provision of intraday credit (also known as daylight overdrafts) in accounts at the Reserve Banks.¹ The PSR policy includes procedures, referred to as posting rules, that are used to measure account balances. The posting rules establish settlement times for debits and credits at Federal Reserve accounts for different payment types.

¹ The Board's PSR policy is available at: https://www.federalreserve.gov/paymentsystems/psr_about.htm.

The ACAP is a feature of the Fedwire[®] Securities Service (“Fedwire Securities” or “Service”) that offers Fedwire Securities participants (participants) the option to automate principal and interest (P&I) tracking and claim adjustments related to transactions between participants that settle over Fedwire Securities.² The Reserve Banks, in their capacity as fiscal agents for issuers of securities issued over Fedwire Securities, make P&I payments to record-date holders of the securities.³ For some types of transactions between participants, such as repurchase agreements (repos), the participant identified as the record-date holder by the Service may not be entitled to the P&I payment pursuant to a separate agreement between the transaction participants. The ACAP offers an automated way for the record-date holder to transfer a P&I payment from its master account to the master account of the designated participant.

In January 2022 the Federal Reserve Banks announced phased enhancements to the Service that will expand ACAP tracking to all coupon-paying securities issued over Fedwire Securities, add securities lending as a transaction type, and shift the timing of settling claim adjustments.⁴ Currently, ACAP adjustments are settled at approximately 4:30 p.m. ET via the National Settlement Service (NSS). Most, but not all claim adjustments are associated with that day’s P&I payment which are generally made earlier in the day. The shift in the timing of settling claim adjustments is designed to narrow the timing gap between P&I payments and the associated claim adjustments. To effect this shift in timing, the ACAP enhancements include a

² An ACAP claim adjustment is a transfer of funds from one Fedwire Securities participant to another participant over the Service.

³ Issuers provide securities record dates and payment dates information to the Fedwire Securities Service. As an operational matter, a participant who is identified by the Service as the holder of a security after the Service closes on the business day prior to the security’s record date is a record-date holder of the security. A record-date holder of a security is entitled to payment of P&I on that security, and the P&I payment is distributed to record-date holders on the payment date associated with the record date regardless of whether the participant still holds the security on the payment date.

⁴ See FRBServices.org, *New Implementation Plan for the Automated Claim Adjustment Process Enhancements* (Jan. 18, 2022), <https://www.frbservices.org/news/communications/011822-fedwire-securities-participants-service-providers>. For the most recent information regarding the ACAP enhancements, see <https://www.frbservices.org/resources/financial-services/securities/acap>.

design change to utilize new Fedwire Securities messages to settle claims, which result in claim adjustments being effected promptly after the associated P&I payments are made. This design change will be implemented January 30, 2023.

II. New Posting Rule to Accommodate the ACAP Enhancements

Currently, ACAP adjustments are not explicitly mentioned in the posting rules of the PSR policy because ACAP adjustments are settled using NSS, which has its own posting rule.⁵ The Board is adding a new posting rule to part II of the PSR policy to reflect the fact that ACAP adjustments will be made on a gross basis through Fedwire Securities throughout the business day.

The ACAP enhancements and the new posting rule are not expected to increase risk to the Reserve Banks or the payment system, even as the ACAP expands to additional security and transaction claim types and as claim adjustment volume increases. ACAP debit adjustments are small compared to the participants' aggregate P&I credits on a given day and analysis shows that they are not expected to significantly impact participants' master account balances. In addition, all participants will be notified of all claim adjustments before the adjustments are processed.

III. Technical Changes to Text of the PSR Policy

In addition to the new posting rule to accommodate the ACAP enhancements, the Board is modifying footnote 37 of the PSR policy by adding a hyperlink to a frequently updated document containing a list of securities issuers, including GSEs, rather than listing the securities issuers directly in the footnote. This change is not substantive in nature and reflects current practices that the Reserve Banks use to administer the PSR policy.

⁵ NSS entries settle throughout the business day as the Reserve Banks process NSS files.

IV. Federal Reserve Policy on Payment System Risk

[The following portion titled “Federal Reserve Policy on Payment System Risk” will not publish in the Code of Federal Regulations.]

FEDERAL RESERVE POLICY ON PAYMENT SYSTEM RISK

Part II. Federal Reserve Intraday Credit Policies

Under “Procedures for Measuring Daylight Overdrafts”, revise “Opening balance (previous day’s closing balance)”, “Post throughout business day” as follows:

A. Daylight overdraft definition and measurement

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Procedures for measuring daylight overdrafts³⁴

Opening balance (previous business day’s closing balance)

Post throughout the business day:

- +/- FedNow funds transfers
- +/- Fedwire funds transfers³⁵
- +/- Fedwire book-entry securities transfers
- +/- Fedwire book-entry automated claim adjustments³⁶
- +/- National Settlement Service entries.
- + Fedwire book-entry interest and redemption payments on securities that are not obligations of, or fully guaranteed as to principal and interest by, the United States³⁷
- + Electronic payments for matured coupons and definitive securities that are not obligations of, or fully guaranteed as to principal and interest by, the United States.³⁸

³⁴ This schedule of posting rules does not affect the overdraft restrictions and overdraft measurement provisions for nonbanks established by the Competitive Equality Banking Act of 1987 and the Board’s Regulation Y (12 CFR 225.52).

³⁵ Funds transfers that the Reserve Banks function for certain international organizations using internal systems other than payment processing systems such as Fedwire will be posted throughout the business day for purposes of measuring daylight overdrafts.

³⁶ Claim adjustments are debits and credits associated with the Fedwire Securities Service's Automated Claim Adjustment Process (ACAP).

³⁷ For a complete list of securities issuers, including GSEs, please visit <https://www.frbservices.org/resources/financial-services/securities/user-guide.html>.

The term "interest and redemption payments" refers to payments of principal, interest, and redemption on securities maintained on the Fedwire Securities Service.

The Reserve Banks will post these transactions, as directed by the issuer, provided that the issuer's Federal Reserve account contains funds equal to or in excess of the amount of the interest and redemption payments to be made. In the normal course, if a Reserve Bank does not receive funding from an issuer for the issuer's interest and redemption payments by the established cut-off hour of 4:00 p.m. eastern time on the Fedwire Securities Service, the issuer's payments will not be processed on that day.

³⁸ Electronic payments for credits on these securities will post according to the posting rules for the mechanism through which they are processed, as outlined in this policy. However, the majority of these payments are made by check and will be posted according to the established check posting rules as set forth in this policy.

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By order of the Board of Governors of the Federal Reserve System, acting through the Director of the Division of Reserve Bank Operations and Payment Systems under delegated authority.

Ann E. Misback,
Secretary of the Board.