September 6, 2024

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

RE: Expansion of Fedwire Funds Service and National Settlement Service Operating Hours

Dear Ms. Misback:

On behalf of America's Credit Unions, we are writing in response to the request for comment (RFC) issued by the Board of Governors of the Federal Reserve System (Board) regarding the proposed expansion of the operating hours of the Fedwire Funds Service and the National Settlement Service (NSS). America's Credit Unions is the voice of consumers' best option for financial services: credit unions. We advocate for policies that allow the industry to effectively meet the needs of their over 140 million members nationwide.

America's Credit Unions supports faster, safer and cost-effective payment systems for credit unions and their members. The proposed expansion of the Fedwire Funds Service and NSS operating hours could help *some* credit unions—such as those in western time zones—process payments later in the day. For credit unions with international affiliations (e.g., those serving universities, members living abroad, etc.), the proposal could improve the handling of cross-border payment flows, while others looking to serve businesses with time sensitive payment needs might find weekend operating hours beneficial. However, the overall demand for expanded settlement flexibility is unclear and it remains doubtful whether all institutions or just a select few would benefit from a proposed expansion of operating hours.

The Board should conduct additional outreach before proceeding with a final rule given the high staffing costs credit unions will face to accommodate weekend and holiday operations. If the Board decides to move forward with the proposal as written, a more gradual implementation approach could help reduce weekend costs, allow a more gradual ramp up in staffing, and permit the Board to better test assumptions around demand and use cases for expanded operations to 22 hours per day, 7 days per week, every day of the year (22x7x365). The Board should also consider how new message format or directory capabilities might enable more precise application of expanded operating hours to certain types of transactions or, at the very least, improve the transparency of clearing and settlement obligations in an environment where participation is optional.

General Comments

The RFC proposes an expansion of the Fedwire Funds Service and NSS operating hours to 22x7x365. The most significant change for credit unions would be the transition to weekend and holiday operating hours, which would correspond with increased staffing costs. Processing returns and screening transactions for fraud over weekends and holidays would contribute to these costs.

Voluntary participation is a key feature of the expansion proposed by the Board. As stated in the RFC, the Board believes that "optionality should be maintained during any expanded hours."[1] However, optionality alone may not spare credit unions from greater operational costs. Small and medium-sized credit unions have expressed concern that they are likely to face competitive pressure from larger banks that choose to participate in the expanded operating hours. These credit unions believe their members will eventually demand weekend and holiday posting if it becomes commonplace, even if the projected volume of payments during expanded hours is less certain. In other words, the perception of operational parity may be more important than the actual need for weekend and holiday settlement.

The Board's commitment to optionality may be more difficult to realize in the context of private-sector settlement arrangements. The Board acknowledges a distinction between the optionality granted in the context of Fedwire participation versus participation in the NSS through a private-sector clearinghouse or ACH network. As stated in the RFC, "an institution that participates in a private-sector clearing arrangement for which transactions are settled through NSS ***may*** be allowed under the rules of the clearing arrangement (i) not to send or receive transactions using the clearing arrangement during overnight hours" (emphasis added).[2]

The Board's suggestion that the rules governing private sector clearing arrangements might supersede the optionality promised in the proposal changes the overall outlook for smaller institutions, who could be forced to adopt expanded operating hours in order to preserve their access to existing clearing arrangements for checks and ACH items. In this scenario, smaller credit unions would be less likely to avoid additional operational costs unless the Board were to make a more comprehensive guarantee that participation will be voluntary notwithstanding future rules adopted by private clearing networks.

Costs and Operational Burdens

The RFC notes that the hypothetical beneficiaries of expanded operating hours would be larger financial market utilities (FMUs), private-sector retail payment services, and clearinghouses that leverage the Fedwire Funds Service and/or NSS. In this regard, the Board adopts a market-wide view of hypothetical payment system improvements while devoting far less attention to the perspective of different types of banking institutions—particularly smaller, community-focused

[1] Board of Governors of the Federal Reserve System, Expansion of Fedwire® Funds Service and National Settlement Service Operating Hours, 89 Fed. Reg. 39613, 39619 (May 9, 2024)
[2] 89 Fed. Reg. 39613, 39618.

credit unions. Although the RFC notes engagement with "a broad range of stakeholders," the feedback from this engagement is characterized as "informal and not as comprehensive as an information collection."[3] The Board summarizes the perspectives of small banks as "differing" while observing that some expressed "a lack of pressing need and business case compared with the level of investment required to operate on a 24x7x365 basis."[4] Accordingly, it is difficult to judge exactly how the proposal might benefit smaller community institutions.

While greater settlement flexibility is generally presumed to be desirable for consumers and businesses, the Board has not presented specific data to supplement its assumptions about the actual demand for weekend or holiday payments. For example, while the perspectives of "stakeholders that are active in global payments markets" are characterized as supportive of the proposal, there is no specific information about what volume of cross-border payments would be expected during weekend and holiday hours. Furthermore, there is very little analysis of how the burden of maintaining weekend and holiday operating hours (whether by choice or by perceived competitive necessity) might force smaller credit unions to allocate resources inefficiently, thereby compromising the quality or affordability of their products and services in local communities.

The Board should survey payment system end-users about the need for weekend and holiday settlement options. The Board should also consider the staffing burdens imposed on smaller institutions and the potential magnification of fraud prevention costs during expanded operating hours. A proposal that corresponds with greater operational costs might be more palatable to a broader cross-section of financial institutions if there is persuasive evidence that all types of institutions will benefit. However, the strongest supporters of the proposal appear to have an interest in accessing global markets in jurisdictions where payments are processed during "off hours" or on "off days," whereas the vast majority of credit unions do not cater their services to large foreign businesses that settle payments during weekends and holidays.

Role of the U.S. Dollar

The Board cites the perspectives of institutions handling a significant volume of cross-border payments to suggest that an expansion of operating hours would "help preserve the status of the U.S. dollar as the preferred currency for global settlements."[5] America's Credit Unions supports a strong dollar and efforts to preserve its status; however, claims that 24x7x365 access to global payments infrastructures are essential to this mission must be investigated carefully and with more fulsome analysis provided by the Board. Additionally, America's Credit Unions asks that the Board resist imprudent requests from non-depository fintech companies to directly access the payments infrastructure of the Federal Reserve.

As the Board is likely aware, fintech companies may present unique credit, operational, settlement, and cyber risks. Even without direct access to the Fedwire Funds Service and NSS,

[3] Id. at 39615.
[4] Id.
[5] Id.

these risks are likely to be magnified in a correspondent settlement environment that operates on a near continuous basis. Some fintech companies, particularly those with cryptocurrency-oriented business models, have sought to obtain direct access to Federal Reserve settlement services. Granting non-depositories direct access to 24x7x365 payments infrastructure through a master account would greatly exacerbate the risk of potential money laundering, fraud and crime, and likely undermine the status of the U.S. dollar if such risks are realized. Accordingly, we strongly advise against consideration of changes to master account eligibility now or in the future.

Liquidity Management

The Board recognizes that an expansion of the Fedwire Funds Service and NSS operating hours will correspond with a greater need to access liquidity on the weekends and holidays. While most smaller credit unions are unlikely to process very large business payments during weekends, the volume of holiday shopping settled over weekends or during holiday hours could strain existing liquidity sources. Accordingly, the Board should ensure that institutions participating in the expanded operating hours have access to weekend and holiday funding. Limited availability of liquidity (e.g., discount window advances made only during defined hours) on weekends and holidays would be less desirable than a 24x7x365 solution or at least one that matches the RFC's proposed operating hours. America's Credit Unions urges the Board to ensure that depository institutions have the resources necessary to manage liquidity at a reasonable cost so that any expansion to weekend and holiday hours does not result in greater risk to the credit union system or financial sector as a whole.

Implementation

The Board is proposing to extend the current 22x5 Fedwire Funds Service and NSS operating hours to 22x7x365 no sooner than two years after the implementation of the ISO 20022 message format for the Fedwire Funds Service, scheduled for March 2025. The RFC further clarifies that the Board does not expect action sooner than 2027. America's Credit Unions agrees that planning for implementation only after a successful migration to the ISO 20022 message standard is sensible; however, some credit unions suggested a phased implementation approach where weekend hours are limited to test demand and adjust to new operational burdens.

A phased implementation plan could start with limited hours on weekends (e.g., standard business hours) instead of the full 22 hours proposed in the RFC. After a year, the Board should evaluate weekend usage of settlement systems to determine whether a full ramp up to 22-hour operating hours is appropriate and to ensure that operational costs incurred by institutions are not disproportionate to demand—particularly in the domestic payments market. The Board should also evaluate any final rule's impact on institutions of various types and sizes, such as smaller, community focused credit unions.

One industry whitepaper cited by the Federal Reserve suggests how a phased approach could potentially vary in flexibility depending on "on existing capabilities at the time operating hours are expanded, such as the ability of message formats to capture information that would allow for more targeted management, monitoring, and control of payment flows."[6] If large value, cross-border business payments are the predominant type of transaction occurring during weekend hours, then it may be appropriate to consider ways to leverage additional messaging capabilities to support a narrower expansion of the operating hours that target those specific uses of the Fedwire Funds Service and NSS while minimizing operational burden elsewhere.

Given that some credit unions have expressed strong disagreement with any expansion of operating hours, it may be appropriate for the Federal Reserve to conduct additional outreach before proceeding with a final rule. As stated previously, a rule that benefits only a few large institutions connected to international business markets should not come at the expense of high staffing costs and elevated fraud risks for credit unions, particularly when FedNow may adequately address domestic, consumer demand for weekend settlement that does not exceed high value limits.

If the Board proceeds with the proposal as written, it should prioritize development of an expanded operating hours participant directory, similar to what is recommended by the Payments Risk Committee, to support the optionality granted in the proposal and to provide Fedwire participants with a clear understanding of when wires are expected to clear and settle at individual institutions. America's Credit Unions requests that such a directory be developed by the Federal Reserve prior to any effective date.

Conclusion

America's Credit Unions appreciates the opportunity to provide information in response to the RFC. If you have any questions, please do not hesitate to contact me at 703-842-2266 or amorris@americascreditunions.org.

Sincerely,

Andrew Morris

Andrew Morris
Director, Innovation and Technology

[6] *See* Payments Risk Committee: Fedwire Expanded Hours Whitepaper, 13 (April 8, 2021), available at *https://www.newyorkfed.org/medialibrary/microsites/prc/files/2021/prc-fedwire-expanded-hours-considerations-white-paper*.