

FEDERAL RESERVE SYSTEM

Docket No. OP-1692

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

AGENCY: Board of Governors of the Federal Reserve System

ACTION: Notice

SUMMARY: The Board of Governors (Board) has approved modifications to the Federal Reserve Banks' (Reserve Banks) payment services to facilitate adoption of a later same-day automated clearinghouse (ACH) processing and settlement window. Specifically, the Reserve Banks will extend the daily operating hours of the National Settlement Service (NSS) and the Fedwire® Funds Service. To mitigate the risk that these modified hours will cause more frequent delays to the 9:00 p.m. eastern time (ET) reopening of the Fedwire Funds Service, the Reserve Banks will modify the practice of maintaining a 2-hour window between the closing and reopening of the Fedwire Funds Service to maintain only a 90-minute window, and will increase the \$1 billion value threshold for extending the closing of the Fedwire Funds Service to \$3 billion. Finally, the Board has approved corresponding changes to the Federal Reserve Policy on Payment System Risk (PSR policy).

DATE: *Implementation date:* March 19, 2021.

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SUPPLEMENTARY INFORMATION:

I. Background

On May 16, 2019, the Board published a *Federal Register* notice (Notice) seeking public comment on modifications to the Reserve Banks' payment services to facilitate adoption of a later same-day ACH processing and settlement window.¹ As described more fully in the Notice, the ACH network is made up of two network operators: the Reserve Banks, which operate the FedACH[®] service, and The Clearing House Payments Company L.L.C. (TCH), which operates the Electronic Payments Network (EPN) service.² The ACH network is governed by the rules of the ACH operators, which generally incorporate the Nacha Operating Rules and Guidelines adopted by Nacha's members.³ Nacha amended its operating rules on September 13, 2018, to implement a later same-day ACH window.⁴ The amended operating rules, however, are contingent on changes to Reserve Bank services that would enable TCH, the private-sector ACH operator, using NSS, to settle transactions between its customers during this later same-day ACH window.⁵

¹ 84 FR 22123 (May 16, 2019). In addition, the Board has announced that the Federal Reserve intends to explore further expanded hours for NSS and the Fedwire Funds Service, up to 24x7x365, to support a wide range of payment activities, including liquidity management in private-sector real-time gross settlement services for faster payments. *See* 84 FR 39297 (August 9, 2019). The Board is analyzing the risk, operational, and policy implications of further expanding operating hours of NSS and the Fedwire Funds Service.

² The Reserve Banks settle all ACH transactions that are originated or received by FedACH customers, including transactions that are exchanged between the two operators. TCH arranges settlement for only those ACH transactions that are originated and received by EPN customers (that is, transactions within the EPN network). The Reserve Banks settle ACH transactions by posting credits and debits to the sending and receiving banks' Federal Reserve accounts at the settlement time and date provided in the FedACH processing schedule. TCH uses NSS to settle its in-network ACH transactions in participants' Federal Reserve accounts, typically sending NSS files at the same times the Reserve Banks settle FedACH transactions.

³ Nacha's membership consists of insured financial institutions and regional payment associations.

⁴ *See* <https://www.Nacha.org/news/same-day-ach-will-be-enhanced-meet-ach-end-user-needs>.

⁵ *See* n.2, *supra*.

Currently, there are three ACH processing and settlement windows: one next-day window and two same-day windows. The two current same-day windows consist of (1) a morning window with a submission deadline at 10:30 a.m. ET and settlement at 1:00 p.m. ET and (2) an afternoon window with a submission deadline at 2:45 p.m. ET and settlement at 5:00 p.m. ET.⁶ The later same-day ACH processing and settlement window outlined in the Notice would have an afternoon submission deadline of 4:45 p.m. ET and settlement at 6:00 p.m. ET, which is later than the current operating hours of NSS.⁷

The Board requested comment on (1) extending the closing time of NSS by one hour, from 5:30 p.m. ET to 6:30 p.m. ET, (2) extending the cutoff time for Reserve Bank account holders to initiate transfers on behalf of third parties via the Fedwire Funds Service (Fedwire Funds third-party cutoff) by 45 minutes, from 6:00 p.m. ET to 6:45 p.m. ET, and (3) extending the closing of the Fedwire Funds Service by 30 minutes, from 6:30 p.m. ET to 7:00 p.m. ET. These proposed changes were intended to allow sufficient time for depository institutions and their customers to reposition balances and manage liquidity between the closing of NSS, the Fedwire Funds third-party cutoff, and the closing of the Fedwire Funds Service. Table 1 summarizes the proposed changes to closings and cutoffs for Reserve Bank services, while Table 2 illustrates the proposed changes in times between service closings and cutoffs.

⁶ During each window, the ACH operators process the transactions received by the submission deadline and either distribute the transactions to the receiving depository financial institutions (RDFIs) that are their direct customers or exchange with each other the ACH transactions that are destined to RDFIs that are customers of the other operator.

⁷ The actual schedules and timing are determined by each ACH operator and are not set by the Nacha Operating Rules and Guidelines.

Table 1 - Proposed Changes to Closings and Cutoffs for Reserve Bank Services

	<i>Current closings/cutoffs</i>	<i>Proposed closings/cutoffs</i>
<i>NSS closing</i>	5:30 p.m. ET	6:30 p.m. ET
<i>Fedwire Funds third-party cutoff</i>	6:00 p.m. ET	6:45 p.m. ET
<i>Fedwire Funds Service closing</i>	6:30 p.m. ET	7:00 p.m. ET

Table 2 - Proposed Changes in Times Between Service Closings and Cutoffs

	<i>Current time between closings/cutoffs</i>	<i>Proposed time between closings/cutoffs</i>
<i>Time between closing of NSS and Fedwire Funds third-party cutoff</i>	30 minutes	15 minutes
<i>Time between Fedwire Funds third-party cutoff and closing of Fedwire Funds Service</i>	30 minutes	15 minutes
<i>Time between closing of NSS and closing of Fedwire Funds Service</i>	60 minutes	30 minutes

The Board requested comment on how depository institutions and their customers might use a third same-day ACH window and the extended NSS/Fedwire Funds Service hours. The Board also requested comment on whether reducing the time between service closings and cutoffs would increase risks and costs for depository institutions and their customers. Additionally, the Board requested comment on certain operational and policy changes to reduce the risk that the proposed changes to service closings and cutoffs would increase the frequency of delays to the reopening of the Fedwire Funds Service. Specifically, the Board requested comment on modifying (1) the practice of maintaining a 2-hour window between the closing of the Fedwire Funds Service (for one funds-transfer business day) and the reopening of the

Fedwire Funds Service (for the next funds-transfer business day) and (2) the Reserve Banks' dollar value threshold for providing extensions to the Fedwire Funds Service hours. Finally, the Board requested comment on corresponding changes to the PSR policy.

II. Summary of Comments and Analysis

The Board received 77 comments from small and midsize banks, large banks, banking trade associations, end users and associations representing end users, payment trade associations (including national and regional payment associations), third-party processors and service providers, TCH, Nacha, and other interested parties.⁸ Sixty-five commenters generally supported the Board's proposed changes, 10 commenters did not support the proposed changes, and 2 commenters took no clear position.

A. Supporting the Third Same-Day ACH Processing and Settlement Window

Most commenters supported a third same-day ACH processing and settlement window alongside the proposed operating changes to Reserve Banks' payment services, emphasizing the potential benefits to banks and customers located outside the eastern time zone. These commenters believed that making same-day ACH available during greater portions of the business day could make the service more attractive for time-sensitive payments, particularly for banks and customers located in the mountain and Pacific time zones. These commenters also suggested that a third same-day ACH window may encourage more banks to offer same-day ACH services to customers.

Some commenters also noted the benefits of extending NSS and Fedwire Funds Service hours for reasons unrelated to same-day ACH. Commenters suggested that extended NSS and

⁸ Duplicate submissions or similar comments from the same commenter were treated as a single submission. Throughout this notice, the term "bank" will be used to refer to any type of depository institution. Depository institutions include commercial banks, savings banks, savings and loan associations, and credit unions.

Fedwire Funds Service hours would provide further flexibility for their customers to use these services later in the business day. Additionally, commenters suggested that these changes would incrementally improve the ability to transfer funds between Federal Reserve accounts for a private-sector real-time gross settlement service for faster payments.

Ten commenters did not support a third same-day ACH window because of potential staffing costs associated with a longer operating day and, by extension, did not support the proposed changes to the cutoff and closing times for NSS and the Fedwire Funds Service. Most of these commenters were small and midsize banks located in the eastern or central time zones that would need to modify staffing hours to cover a third same-day ACH window. These banks noted that they generally do not originate same-day ACH transactions. At the same time, 21 small and midsize banks (many located in the Pacific time zone) supported the proposed changes. The Board recognizes that adding a third same-day ACH window may incrementally increase costs for certain banks. The Board, however, believes that adding a third-same day ACH window will enhance the availability of the same-day ACH service nationwide, particularly for banks and customers in the mountain and Pacific and time zones, enabling those banks to receive advantages similar to those already experienced by banks in eastern or central time zones. In addition, supporting a third same-day ACH window would advance the Federal Reserve's ongoing objective to improve the speed and efficiency of the payment system in the United States.

B. Extending the Operating Hours of NSS and the Fedwire Funds Service

As described above, to accommodate a third same-day ACH window, the Board proposed that the Reserve Banks extend the operating hours of NSS, the Fedwire Funds third-party cutoff, and the operating hours of the Fedwire Funds Service. The Board requested comment on whether

the reduction in time between the closing of NSS, the Fedwire Funds Service third-party cutoff, and the closing of the Fedwire Funds Service would pose challenges for banks' end-of-day processes.⁹

Supportive commenters generally indicated that the changes and costs associated with extending the operating hours of NSS and the Fedwire Funds Service would not be significant. While the supportive commenters noted that they would need to modify internal processes and procedures, staffing, and certain technological systems and applications, these commenters did not believe that these modifications would be extensive. These commenters indicated that they would be able to make the necessary changes by March 19, 2021, which is Nacha's current effective date for implementing the later same-day ACH window. As noted previously, some small and mid-size bank commenters were not supportive of the third same-day ACH window or the proposed changes to the cutoff and closing times for NSS and the Fedwire Funds Service.

Six commenters, including two large banks, noted that the compressed end-of-day timeline may increase the frequency of requests to extend the closing of the Fedwire Funds Service operating day; conversely, seven commenters, including one large bank, stated that the compressed end-of-day timeline would not increase the frequency of extension requests.

The Board has approved the proposed extensions to the operating hours of NSS, the Fedwire Funds third-party cutoff, and the closing of the Fedwire Funds Service. When the Reserve Banks implement these changes on March 19, 2021, NSS will close at 6:30 p.m. ET, the Fedwire Funds third-party cutoff will occur at 6:45 p.m. ET, and the Fedwire Funds Service will close at 7:00 p.m. ET. The Reserve Banks will monitor for any increased frequency of extension

⁹ End-of-day cycles and processing typically involve the reconciliation and preparation of systems for the next cycle date as well as the production of customer statements.

requests resulting from this compressed end-of-day timeline. As described further below, the Reserve Banks will take certain steps to reduce the risk that extension requests will result in more frequent delays to the reopening of the Fedwire Funds Service.

In addition, as the Board analyzed the changes further, it examined the interplay between extending the operating hours for the Fedwire Funds Service alongside the time frame for repositioning securities free of payment within the Fedwire Securities Service. Currently, the closing time for the Fedwire Securities Service for repositioning free of payment is 7:00 p.m. ET, 30 minutes after the close of the Fedwire Funds Service at 6:30 p.m. ET.¹⁰ While the Board did not receive any comments raising concerns related to the timing for repositioning securities relative to expanding the operating hours of the Fedwire Funds Service, Reserve Bank staff intends to engage with Fedwire Securities Service participants to determine, in consultation with the Board, if a change to the closing time for repositioning securities free of payment in the relevant Operating Circular would be warranted. At this time, based on the low amount of past usage of the repositioning window, the Board believes that any potential changes to the closing time for repositioning securities free of payment at 7:00 p.m. ET would not have a long-run effect on the payment system, because that period is generally used for intraparticipant repositioning and therefore would not necessarily warrant public comment.

C. Reducing the Risk of More Frequent Delays to the Reopening of the Fedwire Funds Service

Fedwire Funds Service operating hours currently begin at 9:00 p.m. ET on the preceding calendar day and end at 6:30 p.m. ET, Monday through Friday. The Reserve Banks currently

¹⁰ See Operating Circular 7, appendix B at <https://www.frbservices.org/assets/resources/rules-regulations/operating-circular-7-102917.pdf>.

strive to maintain at least a 2-hour window between the closing and reopening of the Fedwire Funds Service to allow Fedwire participants sufficient time to complete their end-of-day cycles and processing.¹¹ With a change to the closing time of the Fedwire Funds Service from 6:30 p.m. ET to 7:00 p.m. ET, the window between the closing and reopening of the Fedwire Funds Service would be reduced from 2 hours and 30 minutes to 2 hours. Accordingly, if the Reserve Banks maintain their current practice of providing a 2-hour window between the closing and reopening of the Fedwire Funds Service, any extension granted to the closing of the Fedwire Funds Service would result in the delayed reopening of the Fedwire Funds Service for the next business day.¹²

The Reserve Banks allow participants to request extensions to the Fedwire Funds third-party cutoff or the Fedwire Funds Service closing time if, among other things, the dollar value of delayed transfers would exceed \$1 billion.¹³ The Reserve Banks also allow participants to request extensions to the NSS closing, although such requests are uncommon.¹⁴ Extensions to the Fedwire Funds third-party cutoff, the Fedwire Funds Service closing time, or both currently occur approximately twice per month and, in most cases, do not affect the reopening time of the Fedwire Funds Service for the next business day.¹⁵ Given the compressed end-of-day time

¹¹ See <https://www.frbservices.org/resources/financial-services/wires/extension-guidelines.html>. See also 68 FR 28826, 28827 (May 27, 2003) (“In general, the Federal Reserve Banks will work to maintain a two-hour interim period between the close and open of Fedwire each business day”).

¹² For example, a 15-minute extension to the Fedwire Funds Service closing (from 7:00 p.m. ET to 7:15 p.m. ET) would result in a 15-minute delay to the reopening of the Fedwire business day (from 9:00 p.m. ET to 9:15 p.m. ET).

¹³ See Operating Circular 6, section 10.3, and <https://www.frbservices.org/resources/financial-services/wires/extension-guidelines.html>. Additionally, if the Fedwire Funds Service experiences an operational disruption, the Reserve Banks may extend the Fedwire Funds Service closing time regardless of the dollar value still to be sent.

¹⁴ Operating Circular 12, section 5.8, provides discretion to a Reserve Bank to extend the NSS settlement window. While extensions to the closing of NSS are uncommon, such extensions could be required when system outages or problems prevent the submission or processing of NSS files.

¹⁵ Over a 43-month period from January 2016 through July 2019, the Reserve Banks granted 47 extensions to the

frame, any extension to the closing of NSS or the Fedwire Funds third-party cutoff will require an extension to the Fedwire Funds Service closing time.¹⁶ If the Reserve Banks maintain their current practice of providing a 2-hour window between the closing and reopening of the Fedwire Funds Service, any extension granted to the closing of the Fedwire Funds Service would result in the delayed reopening of the Fedwire Funds Service for the next business day.

Delays to the reopening of the Fedwire Funds Service could affect Fedwire Funds Service participants that wish to send payment orders at the start of the Fedwire Funds Service business day. On average, \$35 billion is settled over the Fedwire Funds Service during the first hour of the Fedwire Funds Service business day (9:00 p.m. ET to 10:00 p.m. ET). Seven commenters, including five large banks, emphasized the importance of preserving the consistent and regular opening of the Fedwire Funds Service at 9:00 p.m. ET. These commenters noted that the CHIPS[®] funds-transfer system, a large-value payment system that is owned and operated by TCH, relies on the Fedwire Funds Service for prefunding at 9:00 p.m. ET.¹⁷ These commenters

closing of the Fedwire Funds Service, ultimately resulting in seven delays to the reopening of the Fedwire Funds Service. Thirty-three of these extensions were a result of extensions granted to the Fedwire Funds third-party cutoff. The Reserve Banks also granted 23 extensions to the Fedwire Funds third-party cutoff that did not require extensions to the closing of the Fedwire Funds Service. Currently, the Reserve Banks can provide up to a 45-minute extension to the Fedwire Funds third-party cutoff (from 6:00 p.m. ET to 6:45 p.m. ET) without delaying the reopening of the Fedwire Funds Service. In such circumstances, the Reserve Banks also can provide a 30-minute extension to the closing of Fedwire Funds Service (from 6:30 p.m. to 7:00 p.m. ET) and still maintain (a) a 15-minute window between the Fedwire Funds third-party cutoff and the closing of the Fedwire Funds Service and (b) a 2-hour window between the closing and reopening of the Fedwire Funds Service.

¹⁶ The Federal Reserve has long provided at least 30 minutes between the last NSS settlement and the closing of the Fedwire Funds Service, recognizing that “the Fedwire funds transfer service is the primary alternative for orderly and efficient settlement of bilateral obligations in case a settlement arrangement is unable to complete its multilateral settlement through NSS.” *See* 63 FR 60000, 60004 (Nov. 6, 1998). The Fedwire Funds third-party cutoff was established to stop the flow of customer transactions and allow financial institutions a settlement period to conduct bank-to-bank transfers to adjust master account positions before the closing of the Fedwire Funds Service. The current Fedwire Funds third-party cutoff of 6:00 p.m. ET was established in 1990. *See* 55 FR 18755, 18758 (May 4, 1990).

¹⁷ Through October 31, 2019, CHIPS cleared and settled nearly \$1.7 trillion in domestic and international payments on average per day. *See* https://www.theclearinghouse.org/-/media/new/tch/documents/payment-systems/chips-volume_v2.pdf. TCH noted in a comment letter that 12 percent of CHIPS transaction volume and 5 percent of daily transaction value are sent to CHIPS during the first hour of CHIPS processing, from 9:00 p.m. to 10:00 p.m. ET.

also noted that the 9:00 p.m. ET opening of the Fedwire Funds Service has helped U.S. banks remain competitive in providing U.S. dollar (USD) payment services to clients in the Asia-Pacific market, consistent with the Federal Reserve's original rationale for opening the Fedwire Funds Service at 9:00 p.m. ET.¹⁸ Commenters further stated that, if delays to the reopening of the Fedwire Funds Service were to become more frequent, customers in the Asia-Pacific markets could switch to offshore USD clearing systems or could transact in non-USD currencies.

The Board believes it is important to limit, if possible, the increase of delays to the reopening of the Fedwire Funds Service for the reasons discussed by commenters. As described below, the Reserve Banks will adopt certain operational and policy changes to limit the increase in delays to the reopening of the Fedwire Funds Service.

- i. Changing the practice of maintaining a 2-hour window between the closing and reopening of the Fedwire Funds Service

Seventeen commenters addressed the option of modifying the current practice of maintaining a 2-hour window between the closing and reopening of the Fedwire Funds Service to allow only a 90-minute window. Sixteen commenters, including six large banks, three small and midsize banks, three payment trade associations, two banking trade associations, TCH, and Nacha, supported the reduction to a 90-minute window. One commenter (a midsize bank) did not support this option, suggesting that a 90-minute window may not be adequate for institutions to perform their end-of-day processes.

While the Board recognizes that certain banks may need to make operational adjustments to accommodate a 90-minute window between the closing and reopening of the Fedwire Funds

¹⁸ In May 2003, the Board approved the expansion of the operating hours for the Fedwire Funds Service by changing the opening of the service from 12:30 a.m. ET to 9:00 p.m. ET on the previous calendar day. The Federal Reserve adopted these expanded hours in response to industry requests for greater overlap of U.S. wholesale payment system operating hours with those of the Asia-Pacific markets, including Australia, Hong Kong, Japan, and New Zealand. *See* 68 FR 28826, 28828 (May 27, 2003).

Service, the Board believes that reducing this window will provide a crucial 30-minute buffer (as exists today) for the Reserve Banks to extend the closing of the Fedwire Funds Service (when necessary to prevent significant market disruptions) without delaying the reopening of the Fedwire Funds Service. This buffer would limit the potential increase in delays to the 9:00 p.m. ET reopening of the Fedwire Funds Service, which would reduce disruptions and liquidity strains for institutions that expect payments at 9:00 p.m. ET and shortly thereafter. The Board has approved this modification, which the Reserve Banks will implement on March 19, 2021.

ii. Changing the guidelines for providing extensions to the Fedwire Fund Service

Twenty commenters addressed the proposed option of modifying the guidelines for granting extensions to the Fedwire Funds Service hours (which have been in effect since 1997) by increasing the dollar value threshold from \$1 billion to \$5 billion.¹⁹ Nine commenters, including four payment trade associations, two small and midsize banks, a large bank, a banking trade organization, and Nacha, supported the Board's proposed increase of the dollar value threshold to \$5 billion. Five commenters supported the notion of increasing the threshold but did not support the Board's proposed \$5 billion threshold. Of those commenters, two commenters supported increasing the threshold to \$2 billion; one commenter supported increasing the threshold by some amount less than \$5 billion but did not take a position on the amount; and two commenters proposed alternative structures or measures for modifying the threshold. These commenters proposed options that involved (1) increasing the threshold to account for inflation and observed changes in the average daily value of Fedwire Funds Service transactions; (2) creating a tiered threshold, with a lower threshold for an initial extension and a higher threshold

¹⁹ One of these commenters, TCH, addressed this option but did not take a position.

for subsequent extension requests from the same requestor on the same day; or (3) maintaining the current threshold of \$1 billion for the first two fifteen-minute extension requests and increasing the threshold to \$5 billion for subsequent extensions.

Finally, five commenters did not support increasing the threshold, including three commenters who did not provide a rationale for this position. The other two commenters noted that the current \$1 billion threshold represents “material value” to Fedwire Funds Service participants, that the \$1 billion threshold provides benefits to sending and receiving banks and to their respective customers, and that a higher threshold may result in more wire transfers being delayed until the next business day.

In light of these comments, the Board further assessed a range of options and scenarios for increasing the dollar value threshold for extensions to the Fedwire Fund Service. The Board’s analysis assumed that the Reserve Banks would modify the policy of maintaining a two-hour window between the closing and reopening of the Fedwire Funds Service to maintain only 90 minutes.

The Board used data from a 43-month period, from January 2016 through July 2019, to analyze whether changing the dollar-value threshold would reduce the risk of more-frequent delays to the reopening of the Fedwire Funds Service. From January 2016 through July 2019, the Reserve Banks granted approximately 13 extensions per year to the Fedwire Funds Service hours, approximately 2 of which required the Reserve Banks to delay the 9:00 p.m. ET reopening of the Fedwire Funds Service.²⁰ Over that same period, if the Reserve Banks had maintained a \$1 billion threshold but expanded the operating hours of NSS and the Fedwire Funds Service as the

²⁰ Over the 43-month period from January 2016 through July 2019, the Reserve Banks cumulatively granted 47 extensions to the Fedwire Funds Service hours, 7 of which required the Reserve Banks to delay the 9:00 p.m. ET reopening of the Fedwire Funds Service.

Board has approved in this notice, the Reserve Banks would have granted approximately 20 extensions per year, approximately 7 of which would have required a delay to the reopening of the Fedwire Funds Service. If the Reserve Banks had adopted a value threshold of \$3 billion over that same period with expanded operating hours of NSS and the Fedwire Funds Service, the Reserve Banks would have granted approximately 13 extensions per year, approximately 5 of which would have required a delay to the reopening. Finally, if the Reserve Banks had adopted a value threshold of \$5 billion over that period with expanded operating hours of NSS and the Fedwire Funds Service, the Reserve Banks would have granted approximately 10 extensions per year, approximately 4 of which would have required a delay to the reopening of the Fedwire Funds Service.

The Board also analyzed adjusting the \$1 billion threshold to account for inflation since 1997, but that adjustment would raise the value threshold to an amount less than \$2 billion, which would not materially reduce the number of extensions granted, and by extension, not reduce the number of delayed reopenings of the Fedwire Funds Service. Further, the Board believes that changing the structure of the threshold as suggested by certain commenters (for example, adopting a tiered threshold) would add unnecessary complexity to the process the Reserve Banks use to administer extensions.

The Board has approved an increase to the Reserve Banks' dollar value threshold for extension requests for the Fedwire Funds Service hours to \$3 billion, starting on March 19, 2021. The Board believes that increasing the extension threshold to \$3 billion will limit the increase in disruptive delays to the 9:00 p.m. ET reopening of the Fedwire Funds Service while recognizing the concerns of commenters who favored a threshold lower than \$5 billion. The Reserve Banks

will closely monitor delays in reopening the Fedwire Funds Service and will determine, in consultation with the Board, whether further increases to the threshold are warranted.²¹

iii. Implementing both options simultaneously

The Board requested comment on whether the Reserve Banks should implement the options described above simultaneously—that is, whether the Reserve Banks should simultaneously reduce the 2-hour window to 90 minutes and increase the dollar threshold for extensions. One commenter recommended an incremental approach in which the Reserve Banks would first increase the dollar threshold and subsequently reduce the window between the closing and reopening of the Fedwire Funds Service. The commenter suggested that an incremental approach would give financial institutions more time to enhance the efficiency of their end-of-day processing. The Board believes that implementing both options simultaneously is necessary to reduce to the extent possible delays to the reopening of the Fedwire Funds Service. If the Reserve Banks were to follow an incremental approach and raise the dollar threshold before reducing the 2-hour window to 90 minutes, the Reserve Banks would grant fewer extensions to the closing of the Fedwire Funds Service, but each extension would require a delay to the reopening of the Fedwire Funds Service.

The Board has approved these modifications for implementation simultaneously on March 19, 2021.

²¹ The Reserve Banks will continue to use discretion when granting extensions. Also, given the comments received through this notice, the Board does not believe that a potential future change to the extension threshold would necessarily warrant public comment.

D. Related Changes to the PSR Policy

The Board also proposed conforming changes to Part II of the PSR policy, which governs the provision of intraday credit by the Reserve Banks and establishes procedures—called “posting rules”—for the settlement of debits and credits to institutions’ Federal Reserve accounts for different payment types, to enable adding a third same-day ACH window.²² Specifically, adopting a third same-day ACH processing window requires that the Board modify the PSR policy by adding a 6:00 p.m. ET posting time for settlement of commercial and government same-day ACH transactions and removing the current 5:30 p.m. ET posting time for ACH return transactions, because these return transactions will post at the new 6:00 p.m. ET posting time for same-day ACH transactions.²³ Additionally, extending the closing time of the Fedwire Funds Service will increase slightly the fee that an institution pays for daylight overdrafts, because (under section II.C of the PSR policy) the Reserve Banks calculate the daylight overdraft fees based on the length of the standard Fedwire operating day.

Commenters supported the proposed conforming changes to the PSR policy. These changes will take effect when the Reserve Banks implement the related changes to NSS and the Fedwire Funds Service on March 19, 2021.

III. Criteria for Evaluating the Federal Reserve’s Role in the Payment System

As described in the Notice, the modifications to operating hours for NSS and the Fedwire Funds Service are each considered major service enhancements. Any potential new payment service or major enhancements to an existing service must meet the following criteria:

²² The PSR policy is available at https://www.federalreserve.gov/paymentsystems/files/psr_policy.pdf.

²³ Posting of paper returns of same-day forward items that currently post at 5:30 p.m. ET will also move to the new 6:00 p.m. ET posting time.

The Federal Reserve must expect to achieve full recovery of costs over the long run; the Federal Reserve must expect that its providing the service will yield a clear public benefit; and the service should be one that other providers alone cannot be expected to provide with reasonable effectiveness, scope, and equity.²⁴

The Board expects that, over the long run, the Reserve Banks will be able to recover the costs associated with the extended operating hours. Extending the operating hours for NSS and the Fedwire Funds Service requires relatively minor technical changes and additional staffing during the extended business day, resulting in minimal one-time implementation costs and ongoing additional staffing costs. The Reserve Banks anticipate recovering these costs through existing fees charged for NSS and the Fedwire Funds Service.

The Board also expects that extending operating hours for NSS and the Fedwire Funds Service to support a third same-day ACH window will offer public benefits. Same-day ACH transactions are used for payroll (especially emergency payroll), business-to-business payments, consumer bill payments, and consumer account-to-account payments. As expressed in the feedback received from commenters, by allowing banks to submit same-day ACH transactions later in the business day, the third same-day ACH window could encourage more banks (particularly those in the mountain and Pacific time zones) to offer same-day ACH to their customers, potentially increasing usage more broadly and resulting in increased adoption of same-day ACH payments.²⁵ Increased usage would further advance the Federal Reserve's

²⁴ Clear public benefits include promoting the integrity of the payment system, improving the effectiveness of financial markets, reducing the risk associated with payment and securities-transfer services, or improving the efficiency of the payment system. Board of Governors of the Federal Reserve System, "Federal Reserve in the Payment System," Issued 1984; revised 1990. Available at http://www.federalreserve.gov/paymentsystems/pfs_frpaysys.htm.

²⁵ In the ACH network, RDFIs are defined as entities that receive ACH transactions, while Originating Depository Financial Institutions (ODFIs) are defined as those entities that originate ACH transactions.

ongoing objective to improve the speed and efficiency of the payment system in the United States. Further, the Board believes that extending the operating hours for NSS and the Fedwire Funds Service offers public benefits for reasons unrelated to a third same-day ACH window. For example, these extended operating hours will allow banks to offer increased availability of the Fedwire Funds Service during the day to their customers.

The Board recognizes, however, that extending operating hours may increase certain risks and costs for banks and their customers, including risks and costs related to additional staffing, compression of end-of-day processing activities, decreased availability of extensions to operating hours, and more-frequent delays to the reopening of the Fedwire Funds Service. As described in this notice, the Board has approved a modification to the Reserve Banks practice of maintaining a 2-hour window between the closing and the reopening of the Fedwire Funds Service to maintain only a 90-minute window as well as an increase to the Reserve Banks threshold for granting extensions to the Fedwire Funds Service closing time from \$1 billion to \$3 billion to mitigate these risks and costs.

Finally, the Board does not expect that other providers alone could provide the enhanced services with reasonable effectiveness, scope, and equity. TCH relies on NSS to settle its in-network ACH transactions, including same-day ACH transactions, and so would be unable to offer a third same-day ACH window with settlement at 6:00 p.m. ET if the Reserve Banks did not extend the closing time of NSS.

IV. Competitive Impact Analysis

When considering changes to an existing service, the Board conducts a competitive impact analysis to determine whether there will be a direct and material adverse effect on the ability of other service providers to compete effectively with the Federal Reserve in providing

similar services due to differing legal powers or the Federal Reserve's dominant market position deriving from such legal differences.²⁶ The Board believes that there will be no adverse effects to other service providers resulting from extending the operating hours of NSS and the Fedwire Funds Service. As described earlier, the changes to NSS and the Fedwire Funds Service will allow TCH, the private-sector ACH operator, to implement the third same-day ACH window. This would promote competitive fairness between the two ACH operators.

V. Conclusion

As described above, the Board has approved the following modifications and enhancements to NSS and the Fedwire Funds Service and the Reserve Banks will implement the changes on March 19, 2021. Additionally, the Board has approved changes to the PSR policy that will take effect when the Reserve Banks implement the related changes to NSS and the Fedwire Funds Service.

A. Fedwire Funds Service Operating Hours

The Fedwire Funds third-party cutoff will occur at 6:45 p.m. ET and the closing of the Fedwire Funds Service will occur at 7:00 p.m. ET. The opening time for the Fedwire Funds Service will remain at 9 p.m. ET on the previous calendar day. The service will be available for business days Monday through Friday, except for specified holidays observed by the Reserve Banks.

B. National Settlement Service Operating Hours

The closing of the National Settlement Service will occur at 6:30 p.m. ET. The opening time for the National Settlement Service will remain at 7:30 a.m. ET.

²⁶ See The Federal Reserve in the Payments System (issued 1984; revised 1990), Federal Reserve Regulatory Service 9-1558.

C. Window between the Closing and Reopening of the Fedwire Funds Service

The Reserve Banks will modify their current practice of maintaining a 2-hour window between the closing and the reopening of the Fedwire Funds Service to maintain only a 90-minute window.

D. Fedwire Funds Service Extension Threshold

The Reserve Banks will raise the threshold for granting extensions to the Fedwire Funds Service closing time from \$1 billion to \$3 billion. The Reserve Banks, in consultation with the Board, will determine whether further increases to the threshold are warranted to maintain the regular and consistent open of the Fedwire Funds Service at 9:00 p.m. ET.

E. PSR Policy

The Board is amending part II of the PSR policy to add a new 6:00 p.m. ET posting time for same-day ACH transactions, remove the current 5:30 p.m. ET posting time for ACH return transactions, and make conforming changes to the daylight overdraft fee calculation.

VI. Federal Reserve Policy on Payment System Risk (PSR)

The Board amends part II of the PSR policy.

Revisions to Section II.A of the PSR Policy

Revise Section II.A, **Opening balance (previous day's closing balance)**, as follows:

A. Daylight overdraft definition and measurement

* * * * *

Post by 1:00 p.m. eastern time:

- +/- Commercial check transactions, including returned checks
- +/- Government and commercial FedACH SameDay Service transactions,

- + including return items³⁴
- + Same-day Treasury investments.

Post at 5:00 p.m. eastern time:

- +/- Government and commercial FedACH SameDay Service transactions, including return items³⁵
- + Treasury checks, postal money orders, and savings bond redemptions in separately sorted deposits; these items must be deposited by the latest applicable deposit deadline preceding the posting time
- + Local Federal Reserve Bank checks; these items must be presented before 3:00 p.m. eastern time

Post at 5:30 p.m. eastern time:

- +/- Commercial check transactions, including returned checks

Post at 6:00 p.m. eastern time:

- +/- Government and commercial FedACH SameDay Service transactions, including return items³⁶

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Revisions to Section II.C of the PSR Policy

The Board will revise section II.C, paragraph 3 of the PSR policy as follows:

C. Pricing

* * * * *

Daylight overdraft fees for uncollateralized overdrafts (or the uncollateralized portion of a partially collateralized overdraft) are calculated using an annual rate of 50 basis points, quoted on the basis of a 24-hour day and a 360-day year. To obtain the effective annual

³⁴ With the exception of paper returns and paper notifications of change (NOCs) of prior-dated items that only post at 5:00 p.m.; paper returns of same-day forward items that only post at 6:00 p.m.; and FedLine Web returns and FedLine Web NOCs that only post at 8:30 a.m. and 5:00 p.m., depending on when the item is received by Reserve Banks.

³⁵ With the exception of paper returns of same-day forward items that only post at 6:00 p.m.

³⁶ With the exception of paper returns and paper notifications of change (NOCs) of prior-dated items that only post at 5:00 p.m.; and FedLine Web returns and FedLine Web NOCs that only post at 8:30 a.m. and 5:00 p.m., depending on when the item is received by Reserve Banks.

rate for the standard Fedwire operating day, the 50-basis-point annual rate is multiplied by the fraction of a 24-hour day during which Fedwire is scheduled to operate. For example, under a 22-hour scheduled Fedwire operating day, the effective annual rate used to calculate daylight overdraft fees equals 45.83 basis points (50 basis points multiplied by 22/24).⁵⁵ The effective daily rate is calculated by dividing the effective annual rate by 360.⁵⁶ An institution's daily daylight overdraft charge is equal to the effective daily rate multiplied by the institution's average daily uncollateralized daylight overdraft.

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Revisions to Section II.F of the PSR Policy

Revise section II.F, paragraph 3 as follows:

F. Special Situations

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Certain institutions are subject to a daylight-overdraft penalty fee levied against the average daily daylight overdraft incurred by the institution. These include Edge and agreement corporations, bankers' banks that are not subject to reserve requirements, and limited-purpose trust companies. The annual rate used to determine the daylight-overdraft penalty fee is equal to the annual rate applicable to the daylight overdrafts of other institutions (50 basis points) plus 100 basis points multiplied by the fraction of a 24-hour day during which Fedwire is scheduled to operate (currently 22/24). The daily daylight-overdraft penalty rate is calculated by

⁵⁵ A change in the length of the scheduled Fedwire operating day should not significantly change the amount of fees charged because the effective daily rate is applied to average daylight overdrafts, the calculation of which would also reflect the change in the operating day.

⁵⁶ Under the current 22-hour Fedwire operating day, the effective daily daylight-overdraft rate is truncated to 0.0000127.

dividing the annual penalty rate by 360.⁷⁴ The daylight-overdraft penalty rate applies to the institution's daily average daylight overdraft in its Federal Reserve account. The daylight-overdraft penalty rate is charged in lieu of, not in addition to, the rate used to calculate daylight overdraft fees for institutions described in this section.

By order of the Board of Governors of the Federal Reserve System, December 20, 2019.

Ann Misback (signed)

Ann Misback,
Secretary of the Board

⁷⁴ Under the current 22-hour Fedwire operating day, the effective daily daylight-overdraft penalty rate is truncated to 0.0000382.