

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 80-88
May 6, 1980

PROPOSED CHANGE IN FEDERAL RESERVE
WIRE TRANSFER OPERATING HOURS

TO ALL MEMBER BANKS
AND OTHERS CONCERNED IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

The Board of Governors has requested comment on proposals by Federal Reserve staff for changes in the operation of the System's wire network intended to establish uniform, nationwide operating hours for transfer of federal funds (excess reserves); extend operating hours for transfer of federal funds; and establish a one-hour period at the end of the day for interbank settlement transfers. These proposals, which are printed on the following pages, were developed by Federal Reserve System staff in response to a request from the Federal Advisory Council for suggestions for improving the System's funds transfer capabilities.

As noted in the body of the proposals, any comments must be received on or before May 30, 1980. Your comments may be mailed to Theodore E. Allison, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, D.C. 20551.

Questions regarding these proposals may be directed to Richard D. Ingram at the Head Office, Ext. 6333, or the officer in charge of the Accounting Department at the El Paso, Houston, or San Antonio branches.

Sincerely yours,

Robert H. Boykin

First Vice President

PROPOSAL TO CHANGE FEDERAL RESERVE WIRE TRANSFER OPERATING HOURS

Last year the Federal Advisory Council requested the Federal Reserve to review the operating hours of the System's wire transfer operation. This review was requested because many changes have occurred over the past few years that impact member bank use of wire transfer services and the operating hours of the service have not changed since 1972. The Federal Reserve has completed its review and is considering changes to the operating hours. The changes under consideration are: 1) establish uniform, nationwide operating hours, 2) extend operating hours, and 3) establish a one hour additional period for interbank reserve account settlement transactions.

Background

The Federal Reserve's Communication System (Fedwire) is the principal means by which funds are transferred between Federal Reserve member banks. It has been in operation since 1917 and currently connects all Federal Reserve offices, the Board of Governors, member banks, the Treasury and other governmental agencies. Under current policy, adopted in 1972, interdistrict wire transfers can be effected through the Fedwire from 8 a.m. or 9 a.m. to 3 p.m. local time provided that the receiving office has not closed. For example, a bank located on the West Coast may send transfers to banks located in the Mountain or Central time zones at 1:00 p.m. Pacific time but may not send to East Coast banks that have already closed for purposes of interdistrict wire transfers. Thus, the present system is based on a "rolling" cutoff time.

Since 1972 the financial environment changed in ways that impact the operating hours. First, there has been a continuing movement towards a national market. Second, higher interest rates have led to more sophisticated corporate money management practices with a consequent growth in interbank and corporate funds transfers. The effect of this change has been to increase the volume of transfers and the velocity of reserve account turnover, thus rendering reserve account management more difficult. Third, the financial community has expressed concern about its ability to effect same-day nationwide net settlement services within the compressed time frame permitted by the Fed's present funds transfer closing hours.

Proposal

As the movement towards a national market in Federal funds continues to grow, the growth may not be fully supported by the present Fedwire operating hours. To support national money markets and settlement systems, it appears that uniform nationwide operating hours are needed. A simple extension of operating hours under the present system of a "rolling" cutoff time would not appear to be a satisfactory solution because member banks in some Federal Reserve districts would be denied access to markets open to other member banks.

Some Federal Reserve Banks regularly allow a period for intradistrict transfers after the interdistrict transfer system is closed. Having a different cutoff hour for intradistrict transfers may create competitive advantages for banks located in some Federal Reserve districts. Accordingly, it may be desirable for both interdistrict and intradistrict transfers to close at the same time. Reserve Banks would, of course, retain their present flexibility to deal with unusual circumstances that may arise from time to time. (For example, present policy allows a Reserve Bank to hold the Fedwire open in order to process messages delayed by a computer failure, whether at the Reserve Bank, at a different Reserve Bank, or at a member bank.)

Further, lengthening the operating hours and making them uniform will allow more time for funds trading after the government securities trading ends. This should permit better reserve account management which, in turn, should reduce the need for discount window assistance.

An extension of the operating hours would increase member bank and Reserve Bank expenditures and impact operational procedures. However, an extension may not be desired by all banks. Some smaller banks may wish to close operations at an earlier hour and unexpected funds transfers might be credited to their reserve accounts. This practice occurs today because some banks close on certain weekdays or local holidays.

Under this proposal, banks located in the Pacific time zone could face reduced wire transfer operating hours. For example, a nationwide cutoff time of 5 p.m. Eastern time would mean a cutoff at 2 p.m. for banks located in the Pacific time zone, a loss of 2 hours over their present intradistrict hours. However, they would gain one hour for transfers with Central time banks and two hours with Eastern time banks.

The establishment of a one-hour settlement period between 5 p.m. and 6 p.m. Eastern time should facilitate the settlement process and improve reserve account management. These improvements should also result in more orderly markets, more efficient allocation of reserves, and a reduction in overdraft problems or need for discount window assistance late in the day. A separate settlement period may also simplify the development of same-day net settlement for private payments systems for national and international transactions. Furthermore, the impact of equipment failure during peak afternoon hours could be lessened by an extended trading period. This also reduces the impact of new securities issues and other abnormal events.

Settlement transfers would be defined as transactions ordered by and for the use of reserve account holders. Banks using Fedwire during this hour would be required to designate the nature of their transactions (for example, by type code) to differentiate between interbank Federal funds transactions and third-party payments for customers; the latter would not be permitted during the settlement period. Settlement agents using Fedwire would also be required to designate net settlement transfers (perhaps by separate type code).

If the proposed changes are approved, implementation should take about 3 months.

Before the System takes action on the proposed changes, it would be helpful to receive comments from interested parties on the extent to which such changes would benefit the banking community and the public. In preparing comments the following questions should be considered:

- 1) Would uniform, nationwide operating hours for Fedwire be preferable to the current practice of "rolling" cutoff hours?
- 2) Would an extension of the operating day to 6 p.m. Eastern time be justified by the additional benefits that would ensue?
- 3) Would the proposed settlement period in the last hour of trading permit banks to manage their reserve accounts more effectively?
- 4) If operating hours for wire transfers of funds are extended, should operating hours for wire transfers of government securities be extended as well?

Date: Comments must be received on or before May 30, 1980.

Address: Comments may be mailed to Theodore E. Allison, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, D.C. 20551 or delivered to Room B-2223 between 8:45 a.m. and 5:15 p.m.

For Further Information, Contact your local Federal Reserve office or at the Board of Governors: Lorin S. Meeder, Assistant Director or Elliott C. McEntee, Program Manager, Division of Federal Reserve Bank Operations.