



FEDERAL RESERVE BANK
OF DALLAS

HELEN E. HOLCOMB
FIRST VICE PRESIDENT AND
CHIEF OPERATING OFFICER

DALLAS, TEXAS
75265-5906

November 27, 1996

Notice 96-121

TO: The Chief Executive Officer of each
financial institution and others concerned
in the Eleventh Federal Reserve District

SUBJECT

**Approval of an Effective Date of
Expanded Operating Hours for the Fedwire Funds
Transfer Service and Modification of the
Posting Rules for Daylight Overdrafts**

DETAILS

The Board of Governors of the Federal Reserve System approved December 8, 1997, as the effective date to open the Fedwire funds transfer service at 12:30 a.m. Eastern Time (ET). The current operating hours of the Fedwire funds transfer service are 8:30 a.m. to 6:30 p.m. ET. The closing time of the Fedwire funds transfer service remains unchanged.

In conjunction with the expansion of Fedwire operating hours, the Board also has approved a modification to the daylight overdraft posting times to fix 8:30 a.m. ET as the posting time for certain non-wire transactions that are tied to the current opening time of the Fedwire funds transfer service.

ATTACHMENT

A copy of the Board's notice as it appears on pages 57433-34, Vol. 61, No. 216, of the *Federal Register* dated November 6, 1996, is attached.

MORE INFORMATION

For more information regarding the Fedwire transfer service, please contact Nancy Barton at (214) 922-6746. For more information regarding daylight overdrafts, please contact James Smith at (214) 922-5585. For additional copies of this Bank's notice, please contact the Public Affairs Department at (214) 922-5254.

Sincerely,

Allen E. Halcomb

Financial Services Analyst (202/452-2225), Division of Reserve Bank Operations and Payment Systems, Board of Governors of the Federal Reserve System. For the hearing impaired *only*: Telecommunications Device for the Deaf, Dorothea Thompson (202/452-3544).

SUPPLEMENTARY INFORMATION:

I. Background

In February 1994, the Board approved an expansion of the operating hours for the Fedwire on-line funds transfer service to 18 hours per day, five days per week (Monday through Friday) beginning in 1997, with the specific implementation date to be announced approximately one year in advance of the effective date (59 FR 8981, February 24, 1994; 60 FR 110, January 3, 1995). Beginning December 8, 1997, the Fedwire on-line funds transfer service will open at 12:30 a.m. and close at 6:30 p.m. Eastern Time.^{1, 2, 3} Participation in the earlier operating hours is voluntary.

A 12:30 a.m. Fedwire opening time will overlap the entire European banking day and about two and one-half hours of the banking day in Tokyo. The Board believes that overlaps in operating hours among major financial centers will contribute to strengthened interbank settlement for cross-border markets. The closing time for the Fedwire funds transfer service will remain at 6:30 p.m. As discussed at length in the Board's February 1994 decision, the Board believes that the long-run benefits from offering final payment capabilities will strengthen interbank settlements and contribute to reductions in foreign exchange settlement risk through innovations in payment and settlement practices. In addition, the Fedwire funds transfer service will be an important tool for managing settlement risk early in the day during times of financial stress.

II. Implementation

A. Funds Transfer Business Day

With the earlier opening time of the Fedwire funds transfer system, the Federal Reserve Banks' funds transfer business day for on-line transfers will begin with the opening of the Fedwire funds transfer system at 12:30 a.m. and end with its closing (typically 6:30

[Docket No. R-0778]

Federal Reserve Bank Services

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Notice.

SUMMARY: The Board has announced that, effective December 8, 1997, the Fedwire on-line funds transfer service will open at 12:30 a.m. Eastern Time five days per week (Monday through Friday). Previously, the Board determined that expansion of the Fedwire funds transfer service to 18 hours per day could be a useful component of private-sector initiatives to reduce settlement risk in the foreign exchange markets and to eliminate an operational barrier to potentially important innovation in privately-provided payment and settlement services.

EFFECTIVE DATE: December 8, 1997.

FOR FURTHER INFORMATION CONTACT: Louise Roseman, Associate Director (202/452-2789), Jeff Stehm, Manager (202/452-2217), or Jeannine Butcavage,

¹ The current operating hours for the Fedwire on-line funds transfer service are 8:30 a.m. to 6:30 p.m. Eastern Time, five days per week (Monday through Friday).

² All times referenced are Eastern Time unless otherwise noted.

³ The earlier opening of the Fedwire on-line funds transfer service will not affect the opening time for the origination of and telephone advice of credit for Fedwire off-line funds transfers.

p.m.), Monday through Friday, except for specified holidays observed by the Federal Reserve Banks.⁴ For transfers originated during the very early hours, the Federal Reserve's funds transfer business day may differ from the calendar day on which a Fedwire participant sends or receives the transfer. For example, in the expanded operating hours environment, when a West Coast bank originates a Fedwire funds transfer on Tuesday at 10:00 p.m. Pacific Time (1:00 a.m. on Wednesday Eastern Time), its Federal Reserve Bank will deem that transfer to have occurred on its Wednesday funds transfer business day.

B. Opening Time Considerations

While the Federal Reserve will establish 12:30 a.m. as the standard opening time for the Fedwire funds transfer service, lengthy extensions to the closing time on the previous day could delay the 12:30 a.m. opening for the next business day. The Federal Reserve, therefore, will limit lengthy closing time extensions of the Fedwire funds transfer system to only those necessary to prevent significant market disruptions.

C. Notification of Participation

Some Fedwire participants have indicated to their Federal Reserve Banks that they would find useful a listing of depository institutions that plan to participate during the earlier hours. Participants stated that this information would help them to decide whether it would be beneficial to use their intraday liquidity to initiate certain Fedwire funds transfers during the earlier hours. To accommodate this request, the Federal Reserve will provide a list of earlier hour participants. This list will be updated regularly.

The list of earlier hour participants will not be restrictive; consequently, depository institutions will be permitted to send on-line funds transfers during the earlier hours even if they are not on the Federal Reserve's list of participants. All depository institutions will receive any funds transfers sent to them during the earlier hours whether or not they choose to participate in the earlier hours.

⁴ Uniform Commercial Code Article 4A-106(a) states that a receiving bank may fix a cut-off time(s) on a funds transfer business day for the receipt and processing of payment orders, and treat payment orders received after the close of a funds transfer business day as received at the opening of the next funds transfer business day.

D. Fees for Transfers Made During Earlier Hours

During the 12:30 a.m. to 8:30 a.m. period, transaction fees for Fedwire funds transfers will be charged at the same level and in the same manner as transfers made during the 8:30 a.m. to 6:30 p.m. regular business hours.

E. Intraday Credit

Federal Reserve intraday credit will be provided to Fedwire participants during the 12:30 a.m. to 8:30 a.m. period on the same basis that such credit is provided after 8:30 a.m. That is, eligible institutions may incur intraday overdrafts subject to the requirements of the Board's payment system risk policy. To adjust for the additional operating hours during the day, daylight overdraft fees for all Fedwire participants will be calculated based on an 18-hour Fedwire day rather than a 10-hour Fedwire day.⁵

Posting times for some non-wire transactions are tied to the opening of the Fedwire funds transfer system.⁶ In order not to change the current effective posting times of these transactions, the Board's posting rules have been modified to continue to post these transactions at 8:30 a.m. Interest and redemption payments on U.S. Treasury and Government agency securities generally will be posted between 8:30 a.m. and 9:15 a.m.⁷

F. Policy Statement Changes

As discussed above, the Board has adopted minor changes to the "Federal Reserve Policy Statement on Payments System Risk," effective December 8, 1997. In section (I)(A) (Federal Reserve

⁵ An institution's overdraft charges are calculated daily and equal the gross overdraft charge less the amount of a deductible. The gross overdraft charge is the product of the nominal daily overdraft rate and the average overdraft. Because the nominal daily rate is based on the portion of the day that the Fedwire funds transfer system is open, the nominal daily rate will increase with an 18-hour day. However, the average overdraft calculated for a longer Fedwire day will correspondingly decrease for a given level of total overdrafts. Based on the current daylight overdraft rate, the annual rate will increase from 15 basis points for a 10-hour Fedwire day to 27 basis points for an 18-hour Fedwire day. At the same time, the number of minutes used to average end-of-minute overdrafts will increase from 601 to 1081. The deductible is equal to 10 percent of an institution's qualifying capital valued at an effective daily rate that will be fixed at 10 of 24 hours. This issue was addressed at length in the Board's 1992 announcement of daylight overdraft fees (57 FR 47084, October 14, 1992).

⁶ Specifically, these transactions include ACH credit transactions, advance notice Treasury investments, interest and redemption payments on state and local government series Treasury securities, and Treasury checks, postal money orders, local Reserve Bank checks, and EZ-Clear savings bond redemptions deposited by 12:01 a.m. or a later local deadline.

⁷ The posting rules indicate that these transactions will be posted "by 9:15 a.m."

Policy—Daylight Overdraft Definition), in the table labeled "Modified Procedures for Measuring Daylight Overdrafts," the heading "Post at the Opening of Fedwire Funds Transfer System" is revised to read "Post at 8:30 a.m. Eastern Time". In section (I)(B) (Federal Reserve Policy—Pricing), the third sentence of the second paragraph is revised to read "For example, under an 18-hour scheduled Fedwire operating day, the overdraft fee equals 27 basis points (36 basis points multiplied by 18/24)."

By order of the Board of Governors of the Federal Reserve System, October 30, 1996.

William W. Wiles,

Secretary of the Board.

[FR Doc. 96-28355 Filed 11-5-96; 8:45 am]

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