

**FEDERAL RESERVE BANK  
OF NEW YORK**

[ Circular No. 10312 ]  
[ October 18, 1989 ]

**PROPOSAL TO ESTABLISH A UNIFORM DEADLINE FOR  
ALL THIRD-PARTY FEDWIRE FUNDS TRANSFERS**

**Comments Invited by December 8, 1989**

*To All Depository Institutions in the Second  
Federal Reserve District, and Others Concerned:*

Following is the text of a statement issued by the Board of Governors of the Federal Reserve System:

The Federal Reserve Board has issued for public comment proposed changes to the Fedwire funds transfer and book-entry securities transfer operating schedule.

Comments must be submitted to the Board by December 8, 1989.

The Board is specifically requesting comment on a proposal to establish a 6:00 p.m. Eastern Time (ET) uniform deadline for all third-party Fedwire funds transfers. The current Fedwire operating schedule provides for a 5:00 p.m. ET interdistrict third-party transfer deadline. Federal Reserve Banks have the flexibility to establish the intradistrict third-party deadline between 5:00 p.m. ET and 6:00 p.m. ET.

In addition, comment is requested on whether restricting the last 15 minutes of the final half-hour settlement period to funds transfers sent to receiving institutions for their own accounts (and not for the accounts of respondent institutions) would be desirable to facilitate reserve account management.

The Board is also requesting comment on:

- whether the closing of the book-entry securities wire in the Twelfth District should be made consistent with the closing time observed in other districts; and
- whether the Federal Reserve should establish uniform times at which Reserve Banks begin processing funds and book-entry securities transfers.

The Board believes that these changes would promote competitive equity among depository institutions and support efficient financial markets.

Printed on the following pages is the text of the Board's proposal, as published in the *Federal Register* of October 11. Comments thereon must be submitted by December 8, and may be sent to the Board, as specified in the notice, or to Carol Barrett, Vice President, Electronic Payments Function, at this Bank.

E. GERALD CORRIGAN,  
*President.*

**Federal Reserve Bank Services**

**AGENCY:** Board of Governors of the Federal Reserve System.

**ACTION:** Request for comment.

**SUMMARY:** The Board is requesting comment on a proposal to establish a uniform deadline for all third-party Fedwire funds transfers. In addition, Board requests comment on whether restricting the last 15 minutes of the final half-hour settlement period to funds transfers sent to receiving institutions for their own accounts (and not for the accounts of respondent institutions) would be desirable to facilitate reserve account management. The Board also requests comment on (1) whether the closing of the book-entry securities wire in the Twelfth District should be made consistent with the closing time observed in the other districts; and (2) whether the Federal Reserve should establish uniform times at which Reserve Banks begin processing funds and book-entry securities transfers. The Board believes that these changes would promote competitive equity among depository institutions and support efficient financial markets.

**DATE:** Comments must be submitted on or before December 8, 1989.

**ADDRESS:** Comments, which should refer to Docket No. R-0676, may be mailed to the Board of Governors of the Federal Reserve System, 20th and C Streets, NW., Washington, DC 20551, Attention: Mr. William W. Wiles, Secretary; or may be delivered to Room B-2223 between 8:45 a.m. and 5:00 p.m. All comments received at the above address will be included in the public comments file, and may be inspected in Room B-1122 between 9:00 a.m. and 5:00 p.m.

**FOR FURTHER INFORMATION CONTACT:** For information regarding Fedwire funds transfer operating hours, contact Bruce J. Summers, Associate Director (202/452-2231), Louise L. Roseman, Assistant Director (202/452-3874), or Tina G. Slater, Senior Financial Services Analyst (202/452-2539), Division of Federal Reserve Bank Operations. For information regarding Fedwire book-entry securities transfer operating hours, contact Bruce J. Summers, Associate Director (202/452-2231), Gerald D. Manypenny, Manager (202/452-3954), or Lisa Hoskins, Senior Financial Services Analyst (202/452-3437), Division of Federal Reserve Bank Operations. For the hearing impaired only: Telecommunications Device for the Deaf, Earnestine Hill or Dorothea Thompson (202/452-3544).

**SUPPLEMENTARY INFORMATION:**

**Uniform Third-Party Transfer Deadline**

The current Fedwire operating schedule provides some level of uniformity to the closing times of the funds transfer service across Federal Reserve districts. Specifically, the schedule provides for an interdistrict third-party transfer deadline of 5:00 p.m.<sup>1</sup>; and an intradistrict and interdistrict bank-to-bank transfer<sup>2</sup> deadline of 6:30 p.m.

This schedule gives Federal Reserve Banks the flexibility to permit depository institutions to send intradistrict third-party transfers as late as 6:00 p.m., which results in disparities between the intradistrict and interdistrict third-party transfer deadlines in some districts. Five districts have intradistrict third-party transfer deadlines of either 5:30 p.m. or 6:00 p.m., thereby permitting institutions, within their districts to exchange third-party transfers after the uniform 5:00 p.m. interdistrict third-party transfer closing. The table below shows the current closing times for the Fedwire funds transfer service.

**CURRENT FEDWIRE FUNDS TRANSFER CLOSING TIMES**  
(Eastern Time)

District	Third-party transfers		Settlement transfers
	Interdistrict	Intradistrict	
Boston .....	5:00 p.m.	5:30 p.m.	6:30 p.m.
New York .....	U	6:00 .....	U
Philadelphia .....	N	6:00 .....	N
Philadelphia .....	I	6:00 .....	I
Cleveland .....	F	6:00 .....	F
Cleveland .....	O	6:00 .....	O
Richmond .....	F	6:00 .....	R
Richmond .....	M	5:00 .....	M
Atlanta .....	C	5:00 .....	C
Atlanta .....	L	5:00 .....	L
Chicago .....	O	5:00 .....	O
Chicago .....	S	5:00 .....	S
St. Louis .....	I	5:00 .....	I
St. Louis .....	N	5:00 .....	N
Minneapolis .....	G	5:00 .....	G
Kansas City .....	T	5:00 .....	T
Kansas City .....	I	5:00 .....	I
Dallas .....	M	5:00 .....	M
Dallas .....	E	6:00 .....	E
San Francisco .....		6:00 .....	

The Board proposes to establish a uniform 6:00 p.m. deadline for the processing of all third-party Fedwire

<sup>1</sup> All times referenced in this notice are Eastern Time, unless otherwise specified.  
<sup>2</sup> Bank-to-bank transfers are transfers that do not involve a non-depository institution third party either as sender or beneficiary.

funds transfers.<sup>3</sup> A number of depository institutions have indicated that later intradistrict third-party transfer deadlines in some parts of the nation have led to artificial restrictions on the flow of funds that put them at a competitive disadvantage. For example, Second District institutions continue to originate and receive third-party transfers among themselves totaling approximately \$60 billion after the close of interdistrict third-party transfer traffic, but institutions in other districts are precluded from exchanging third-party transfers with New York institutions. Since New York is the nation's most active money center, some institutions in other districts perceive their inability to participate in the New York market on the same basis as Second District institutions as a significant competitive disadvantage. This proposed change should reduce competitive inequity among depository institutions by eliminating the distinction between interdistrict and intradistrict third-party transfers.

West Coast depository institutions view the current third-party interdistrict deadline as especially restrictive, because it occurs relatively early in their business day. A uniform 6:00 p.m. third-party transfer deadline would provide West Coast institutions, which today must compete processing of interdistrict third-party transfers by 2:00 p.m. Pacific Time, with a deadline that is more consistent with the business day in the Pacific time zone.

Further, expanding the interdistrict third-party transfer processing hours should result in a reduction in the number of extensions to the third-party deadline, since more time would be available to handle peak volumes and to recover from midday outages. Finally, standardizing the Fedwire third-party transfer deadline nationwide would facilitate the operations of banking organizations that have offices across Federal Reserve district boundaries.

While there are clear benefits to this proposal, a later third-party transfer deadline could adversely affect reserve account management and result in increased extensions of the final Fedwire close. Today, institutions in seven districts have one and one-half hours between the close of both the

<sup>3</sup> The objective of this proposal is to achieve consistency across Federal Reserve districts with respect to the Fedwire funds transfer third-party transfer deadline. Board and Reserve Bank staff are conducting a longer-term study to assess whether further modifications to Fedwire operating hours are required based on the continuing evolution of the payments system and financial markets. The proposals discussed in this notice do not anticipate the results of this study.

interdistrict and intradistrict third-party wire and the final 6:30 p.m. Fedwire close in which to calculate and adjust reserve positions. By extending the deadline for interdistrict third-party transfers, the settlement period<sup>4</sup> for depository institutions in these seven districts would be reduced to one-half hour. An unanticipated last minute receipt of a third-party transfer could complicate reserve account management by contributing to a reserve excess. The need to adjust to such last minute changes in position could result in more frequent requests for extensions of the final Fedwire closing time. Moreover, given the narrower settlement window, any extension of the third-party deadline would always result in an extension of the final Fedwire closing time, in order to provide a 30 minute bank-to-bank settlement period. Extensions require additional operational support and management attention and are costly to both Reserve Banks and depository institutions.

In addition, a later interdistrict third-party transfer deadline could result in revised patterns of funds transfer volume that would result in some institutions receiving transfers later in the day. In five Federal Reserve districts, depository institutions can send funds transfers to in-district receiving institutions after the close of the interdistrict third-party wire. Consequently, a number of institutions in these districts, including the large New York banks, currently manage outgoing third-party transfers in the late afternoon so that their interdistrict transfers are sent prior to the 5:00 p.m. deadline, with the remaining transfers sent prior to the district's later intradistrict deadline. If the Federal Reserve adopts a uniform third-party transfer deadline, there would no longer be a reason to assign priority to interdistrict transfers, with the result that some institutions could receive transfers from certain out-of-district institutions later than they generally receive these transfers today.

Although the proposed third-party deadline would require Reserve Banks to provide funds transfer services later in the day, the proposal would not require depository institutions to remain open for funds until 6:00 p.m. Institutions in districts that currently have earlier third-party deadlines, however, may feel obligated to extend their internal operating hours in order to post incoming transfers to their customers'

<sup>4</sup> The settlement period is used for bank-to-bank settlement transfers, including correspondent/respondent transfers as well as transfers between banks on their own behalf.

accounts on a timely basis and to facilitate their reserve account management.

In order to achieve the benefits of the proposed changes to the Fedwire operating hours, while being sensitive to its potential adverse effects, the Board proposes that the new deadline, if adopted, be implemented in two phases. During a six month transition, the nationwide interdistrict third-party deadline would be extended from 5:00 p.m. to 5:45 p.m., and districts with an intradistrict third-party transfer deadline earlier than 5:45 p.m. would move their deadline to that time. Districts that now have an intradistrict third-party deadline of 6:00 p.m. would maintain this deadline during the transition period. Six months following the implementation of the transition phase, the Federal Reserve Banks would establish a 6:00 p.m. uniform interdistrict and intradistrict third-party deadline, unless experience showed that the later third-party transfer deadline would hinder reserve account management, result in a significant increase in requests to extend the final Fedwire closing time, or otherwise significantly disrupt depository institutions' operations.

The Board requests comment on whether a 60-day period from final adoption of the revised third-party deadlines to the implementation of the six-month transition phase would provide adequate lead time for depository institutions. In addition, the Board requests comment on whether a six-month transition period is sufficient to determine whether the later third-party deadline would have any adverse effects. Finally, if experience during the transition phase indicates that a 6:00 p.m. third-party deadline would be disruptive to depository institutions' operations, the Board requests comment on whether a uniform 5:45 p.m. intradistrict and interdistrict deadline should be established, or whether districts with 6:00 p.m. intradistrict deadlines should be permitted to retain these later deadlines.

#### *Segmented Settlement Period*

Some depository institutions have suggested that a more orderly settlement of end-of-day reserve positions could be facilitated, especially in connection with a later interdistrict third-party transfer deadline, by restricting the last 15 minutes of the final one-half hour settlement period to transfers sent to receiving institutions for their own accounts (and not for the accounts of respondent institutions). Transfer received by an institution for its own

account are generally known to the institution in advance. Whereas an institution can control the timing of transfers sent on behalf of respondent institutions by establishing a deadline for these transfers prior to the Fedwire closing time, last minute transfers received on behalf of respondent institutions may not be anticipated or controlled by the receiving correspondent institution, complicating the correspondent's reserve account management. Restricting transfers that are sent during the last 15 minutes of Fedwire operations to those for which the receiving account-holding institution, and not its respondent, is the beneficiary could facilitate the receiving institution's reserve account management. Segmenting the settlement period into two parts may require new funds transfer type codes and operating changes by both depository institutions and the Reserve Banks.

The Board requests comment on the benefits of a segmented settlement period, as well as any adverse effects it may have on institutions that maintain balances at correspondents. In addition, the Board requests comment on whether, if a segmented settlement period were desirable, the last 15 minutes be further restricted to exclude transfers originated by an institution on behalf of a respondent. Some banks have indicated that because competitive pressure would preclude them from imposing a deadline for the origination of transfers on behalf of respondents that is earlier than the Fedwire deadline, the advantages of a segmented settlement period would not be realized without restrictions on both the origination and receipt of respondent transfers.

If a segmented settlement period were adopted, the Board requests comment on whether it should be implemented concurrent with that 6:00 p.m. third-party deadline; that is, after the six-month transition phase, or whether an alternate implementation schedule would be preferable. Finally, the Board requests comment on how the Federal Reserve should manage extensions of the Fedwire final closing time under a segmented settlement period, e.g., should extensions of the final closing time involve discrete extensions of the two segmented period.

#### *Book-Entry Securities Closing Time*

Currently, the book-entry securities transfer wire is scheduled to close nationwide at 2:30 p.m. for interdistrict and intradistrict transfers, at 2:45 p.m. for dealer turnaround, and at 3:00 p.m.

for reversal transactions.<sup>5</sup> The Twelfth District remains open, however, for intradistrict transfer until 5:30 p.m., with a 6:00 p.m. close for intradistrict reversals. These later operating hours are more consistent with West Coast business hours, and enable Twelfth District institutions to transfer book-entry securities among themselves after the securities transfer system is closed for the rest of the country. The dollar volume of Twelfth District securities transfers processed after the actual national closing time is relatively insignificant. The Board requests comment on whether the later Twelfth District closing times create competitive inequities with institutions in other districts; whether the closing of the book-entry securities transfer system should be uniform nationwide; and if so, what the impact of an earlier intradistrict closing time would be on Twelfth District institutions.

#### Uniform Opening Time

The Board's recent proposal to price daylight overdrafts<sup>6</sup> may have implications for Fedwire opening times. The Fedwire funds transfer operating schedule currently provides that each district open for processing no later than 9:00 a.m.; eight districts begin funds transfer operations between 8:00 a.m. and 8:45 a.m. The opening times for the Federal Reserve's book-entry securities service are even more disparate, ranging from 7:45 a.m. to 11:00 a.m. The current opening times for the funds transfer and book-entry securities transfer services are shown in the table below.

Differences in Fedwire opening times among Reserve Banks may inhibit the efficient movement of funds, especially in an environment where intraday balances have real economic value. For example, if the Board's recent proposal to price daylight overdrafts is adopted, it

<sup>5</sup> These closing times are routinely extended to accommodate peak afternoon securities transfer volume. The actual average reversal closing time to date in 1989 is 4:20 p.m. This proposal would not affect the Federal Reserve's book-entry securities transfer extension policy.

<sup>6</sup> See 54 FR 28094, June 21, 1989.

#### CURRENT FEDWIRE OPENING TIMES

[Eastern Time]

District	Funds Transfer	Book-Entry Securities Transfer
Boston .....	8:45 a.m. ....	8:00 a.m. ....
New York .....	8:00-8:30 .....	8:00-8:30 .....
Philadelphia .....	8:15-8:30 .....	8:00-8:45 *
Cleveland .....	8:00 .....	8:00 .....
Richmond .....	8:30 .....	8:30 *
Atlanta .....	8:30 .....	7:45-8:00 .....
Chicago .....	8:00-9:00 .....	8:45-9:00 .....
St. Louis .....	8:30 .....	9:00 .....
Minneapolis .....	9:00 .....	8:15-8:30 .....
Kansas City .....	9:00 .....	9:00 .....
Dallas .....	9:00 .....	9:00 .....
San Francisco .....	9:00 .....	10:00 *

\* Philadelphia opens at 8:00 a.m. for intradistrict securities transfer processing, and at 8:45 a.m. for interdistrict securities transfer processing.

\* The Charlotte Branch opens at 8:00 a.m. for securities transfer processing.

\* The San Francisco Head Office and the Salt Lake City Branch open at 10:00 a.m. for securities transfer processing; the Portland, Seattle, and Los Angeles Branches open at 11:00 a.m. for securities transfer processing.

is possible that institutions may contract to buy and return Federal funds at specified times during the day. Inasmuch as the market for Federal funds is a national market, differences in Fedwire opening times could artificially constrain private contracting among buyers and sellers of Federal funds.

On a more technical level, under the Board's proposal, pricing would apply to average daylight overdrafts, which would be calculated using the period of time that Fedwire is open. Thus, differences in operating hours across Federal Reserve districts could result in differences in the fee assessed for a given quantity of daylight overdrafts.

An objective of the Board's recent proposal regarding the measurement of intraday reserve and clearing account balances is to eliminate Federal Reserve intraday float. National uniformity in Fedwire operating hours supports this objective because different opening times among Reserve Banks can contribute to intraday Federal Reserve float. Accounts of institutions originating funds or book-entry

securities transfers are debited or credited at the time the originating institution's Reserve Bank processes the transfer. If the receiving Reserve Bank had not yet begun processing for the day, the offsetting entry to the account of the receiving institution would not be posted until that Reserve Bank processes the transfer, creating Federal Reserve intraday credit float (in the case of funds transfers) or debit float (in the case of book-entry securities transfers). Establishment of uniform opening, as well as closing, times would reduce the amount of intraday float generated by the Federal Reserve's Fedwire services.

Five Federal Reserve districts currently start book-entry securities transfer processing earlier than funds transfer processing. If the Board prices book-entry securities daylight overdrafts and includes these overdrafts within an institution's net debit cap, depository institutions may seek to avoid incurring a daylight overdraft from the purchase of a book-entry security by arranging for covering funds prior to the receipt of the incoming security. A uniform opening time for the funds transfer and securities transfer services, or a uniform book-entry securities transfer opening time that is slightly later than that for the funds transfer service, would provide institutions the opportunity to fund their accounts to cover anticipated securities purchases.

The Board requests comment on whether the Federal Reserve should adopt a uniform opening hour of 8:30 a.m. for the Fedwire funds and book-entry securities transfer services, or whether the book-entry securities transfer service opening time should be later than that for the funds transfer service. In addition, the Board requests comment on whether there are reasons other than the Board's risk reduction proposals to establish uniform funds and securities transfer opening times.

By order of the Board of Governors of the Federal Reserve System, October 4, 1989.

William W. Wiles,  
Secretary of the Board.

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