

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 10765
January 18, 1995]

FEDWIRE BOOK-ENTRY SECURITIES TRANSFER SERVICE

**Proposal to Expand Operating Hours and Establish a
Firm Closing Time for Transfers and Reversals**

Comments Invited by April 28, 1995

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

The following statement has been issued by the Board of Governors of the Federal Reserve System:

The Federal Reserve Board has requested public comment on the potential benefits, costs, and market implications of opening the Fedwire on-line book-entry securities transfer service earlier in the day. Currently, the book-entry securities transfer service begins operation at 8:30 a.m. Eastern Time (ET), and closes at 2:30 p.m. ET for transfers and 3:00 p.m. ET for reversals.

Comment is requested by April 28, 1995.

The Board also is requesting comment on new service capabilities that would give banks the option of participating in earlier Fedwire securities hours, and new service capabilities that would allow banks to control their use of securities-related intraday credit during expanded hours and/or core business hours.

In addition, the Board is requesting comment on the establishment of a firm closing time for the Fedwire book-entry securities transfer service, beginning in January 1996.

Printed on the following pages is the text of the proposal, which has been published in the *Federal Register*. Comments should be submitted by April 28 to the Secretary of the Board of Governors, as specified in the Board's official notice.

WILLIAM J. McDONOUGH,
President.

[Docket No. R-0866]

Federal Reserve Bank Services

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Notice; request for comment.

SUMMARY: The Board requests comment on the potential benefits and costs of opening the Fedwire on-line book-entry securities transfer service earlier in the day sometime after the implementation of expanded Fedwire funds transfer operating hours, which is scheduled for 1997. The Board also requests comment on new service capabilities that would give banks the option of participating in earlier Fedwire securities transfer hours and new service capabilities that would allow banks to control their use of

securities-related Federal Reserve intraday credit during expanded hours and/or core operating hours. Finally, the Board requests comment on the establishment of a firm closing time of 3:00 p.m. Eastern Time (ET) for transfers and 3:30 p.m. ET for reversals, beginning in January 1996. The Board is seeking input at this time in order to formulate a strategic direction for the Fedwire book-entry securities transfer service. The Board will consult with the Department of the Treasury before arriving at a decision regarding operating hours and service capabilities.

DATES: Comments must be submitted on or before April 28, 1995.

ADDRESSES: Comments, which should refer to Docket No. R-0866, may be mailed to Mr. William Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W.,

Washington, DC 20551. Comments also may be delivered to Room B-2222 of the Eccles building between 8:45 a.m. and 5:15 p.m. weekdays, or to the guard station in the Eccles Building courtyard on 20th Street N.W. (between Constitution Avenue and C Street) at any time. Comments may be inspected in Room MP-500 of the Martin Building between 9:00 a.m. and 5:00 p.m. weekdays, except as provided in 12 CFR 261.8 of the Board's rules regarding availability of information.

FOR FURTHER INFORMATION CONTACT:

Louise L. Roseman, Associate Director (202/452-2789), Gayle Brett, Manager (202/452-2934), or Lisa Hoskins, Project Leader (202/452-3437), 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: In February 1994, the Board announced approval of the expansion of the Fedwire on-line funds transfer service operating hours to 18 hours a day, from 12:30 a.m. to 6:30 p.m. Eastern Time (ET), five days a week, beginning in early 1997 (59 FR 8981, February 24, 1994).¹ More recently, the Board has delayed the implementation of the 12:30 a.m. ET opening until fourth quarter 1997. (See notice elsewhere in today's **Federal Register**.)

In its announcement on expanded Fedwire funds transfer hours, the Board stated that the operating hours for the Fedwire book-entry securities transfer service would not be expanded until public comment was sought on new service capabilities that would give banks the ability to choose whether to participate in expanded hours and to control the receipt of securities that are delivered to them during expanded and core operating hours.²

By deciding initially to expand only Fedwire funds transfer hours, the Board recognized that an earlier opening of the Fedwire book-entry securities transfer service would be inadvisable without providing banks with the capability of controlling the timing of deliveries of securities and associated debits to their funds accounts. The inability to control the receipt of securities could lead to increased use of intraday credit, with accompanying charges, during the earlier operating hours.

In addition, the Board recognizes that the settlement of U.S. government securities involves complex automated systems not only at the Federal Reserve Banks but also at banks that provide clearance services to the major dealers and brokers in U.S. government securities, at the dealers and brokers themselves, and at the banks that provide custodial services for large investors in U.S. government securities. The changes that might be required at these entities to support expanded book-entry securities transfer operations may be significant. The operations of clearing corporations, securities depositories, and other clearing organizations also may be affected. Furthermore, earlier operating hours may require changes in market

¹ This decision was the result of staff study conducted in response to a request for public comment in October 1992 regarding a change in Fedwire operating hours. Currently, the Fedwire funds transfer service operates 10 hours a day from 8:30 a.m. to 6:30 p.m. ET.

² As used in this notice, the term "bank" includes all depository institutions including savings institutions and credit unions.

practices, such as good delivery guidelines and time-of-day processing of settlement instructions. Expanded operating hours also would compress the time frame that market participants have to complete end-of-day processing, as well as the time frame in which to assess and react to any operational problems.

Since the announcement on expanded Fedwire funds transfer operating hours, Board, Reserve Bank, and Treasury staff have met with a number of market participants, including banks and brokers and dealers, to discuss the potential expansion of on-line Fedwire book-entry securities transfer operating hours. While these participants identified limited potential benefits from having the Fedwire securities transfer service available in the early morning hours, they emphasized the complexity of changes in market practices and processing operations that would be required for an early opening of the Fedwire book-entry securities transfer service.

The Board believes that earlier operating hours for the Fedwire book-entry securities transfer service may have long-run efficiency and risk management benefits for the market. For example, earlier operating hours could provide a means to move collateral during the operating hours of various payments systems around the world, obtain liquidity to support other market activities during expanded hours, reduce replacement cost risk in offshore trading activity, and reduce risk during times of market stress. In addition, expanded operating hours could be responsive to both existing and emerging needs of financial markets, including overseas markets, which depend on the U.S. government securities market as an investment, hedging, funding, and balance sheet adjustment mechanism.

The Board recognizes that the financial markets served by the Fedwire securities transfer system are increasingly reliant on state-of-the-art technology in order to adapt quickly and flexibly to change in the securities clearance and settlement process. For instance, dealers and clearing banks are more and more dependent on systems that can process significant amounts of time-critical information related to trading and settlement activities. Such systems are a prerequisite for dealers and banks that expect to compete in global securities markets. In fact, some major market participants are rapidly adapting their services to support global securities processing services across multiple time zones and during expanded operating hours.

The Federal Reserve Banks currently are redesigning the Fedwire book-entry securities transfer service to provide banks and their customers with flexibility to adapt to changing markets. The new system will enhance availability, strengthen contingency processing, and expand the custody account structure.³ The new application also is being designed to run on an expanded processing cycle. Although the first release of the new application will be able to accommodate a modest expansion of processing hours, the ability to expand operating hours significantly would not be available until sometime after the first release.

The Federal Reserve's Book-Entry Securities Transfer System

The Federal Reserve Banks operate a book-entry system to support the issuance, safekeeping, and transfer of U.S. Treasury and certain federal, federally sponsored, and international agency securities. Approximately 70 percent of securities transferred are U.S. Treasuries; the remaining 30 percent are agency securities. The Fedwire book-entry system supports both the primary and secondary markets in U.S. government securities.

Banks that are eligible to access Federal Reserve services may maintain book-entry securities accounts at a Federal Reserve Bank.⁴ Dealers, brokers, and their customers and other investors hold their securities in accounts at these banks. The book-entry system provides an account structure that permits banks to segregate securities held for their own account from securities held for third parties.

On a daily basis, more than 47,000 Fedwire securities transfers are originated with a value exceeding \$600 billion. Approximately 8,500 banks have access to the Fedwire book-entry service. While fewer than 20 percent of these banks have on-line or electronic access, they account for more than 99 percent of Fedwire securities transfers. More than 60 percent of all transfers are

³ The Federal Reserve Banks are in the process of centralizing all of their critical payment applications. The securities transfer application currently under development, called the National Book-Entry System (NBES), will replace the two existing book-entry applications, BESS and SHARE. BESS is operated in the New York and Philadelphia Reserve Banks; the other ten Federal Reserve Banks operate SHARE. The NBES will be phased in beginning in 1996 and will be fully operational at a centralized site in 1997.

⁴ Under a policy adopted in 1986, the Federal Reserve Banks also may maintain book-entry securities safekeeping accounts for state treasurers. In addition, certain collateral facilities are provided to a limited number of entities under the terms of Treasury Department Circular 154 (31 CFR Part 225).

originated by the two major New York clearing banks.

The Fedwire book-entry securities transfer system is a delivery-versus-payment (DVP) transfer mechanism, whereby the sender of a security initiates a transfer resulting in the real-time simultaneous debit and credit to the sender's securities and funds accounts and a credit and debit to the receiver's securities and funds accounts. The debits and credits associated with each securities transfer are final and irrevocable at the time of the transfer. Securities transfers also may be sent free of payment.⁵

Potential Benefits of an Earlier Fedwire Book-Entry Securities Transfer Opening Time

The Board believes that, in the longer term, an earlier opening of the Fedwire book-entry securities transfer system may be beneficial to the financial markets. First, financial markets might benefit from the ability to move collateral related to a variety of secured transactions in domestic and international markets. Some commenters to the 1992 proposal on early Fedwire funds transfer hours indicated that the ability to transfer collateral to cover early morning margin positions in the futures and options markets would be useful. In addition, many large U.S. banks participate in various national payment and securities settlement systems around the world. These systems are increasingly moving towards the use of collateral, including cross-currency collateral, to secure intraday and overnight credit.⁶ As such, U.S. banks may need the ability to move U.S. government securities during the operating hours of these national payment systems.

Second, an earlier opening of the Fedwire securities transfer system may provide market participants with access to funding liquidity to support other market activities during expanded hours. For example, repurchase

⁵ Under the current posting rules, principal and interest (P&I) payments for Treasury and agency securities are to be posted to Federal Reserve accounts by 9:15 a.m. ET; the Reserve Banks currently make these payments at approximately 8:30 a.m. ET. Original issue payments for Treasury securities are posted beginning at 9:15 a.m. Original issuances of agency securities are controlled by the issuing agencies and typically are made during the mid-to-late morning hours. These posting times were designed to permit a short operational and funding "window" between the timing of P&I and original issue payments. The Board expects that these posting times would not change materially if the Fedwire book-entry securities system were to be opened earlier.

⁶ Cross-currency collateral refers to securities denominated in one currency used to collateralize obligations denominated in a different currency.

agreements using U.S. government securities can be very effective liquid instruments for obtaining funding. The ability to settle repurchase agreements in early morning hours may provide market participants with an additional vehicle to obtain funding liquidity. The need for such liquidity in early hours may arise from settlement of foreign exchange transactions through multi lateral clearinghouses, settlement of positions in the futures and options markets, or interbank funds transfer activity.⁷

Third, earlier book-entry securities transfer operating hours may facilitate a reduction in replacement cost risk, that is, the time between trade and settlement, for offshore trading activity in U.S. government securities. Currently, U.S. Treasury securities are traded on a 24-hour basis around the globe.⁸ A next-day trade executed in Tokyo and settled in New York currently would not be settled until 30 to 37 hours after the close of the Tokyo trading day. Earlier Fedwire securities transfer hours could facilitate a reduction in this lag.

Finally, the routine availability of final, DVP securities transfers on an expanded hours schedule could provide an important risk management tool to the financial markets during periods of stress.

The Board requests comment on the potential benefits of expanded book-entry securities transfer hours outlined above and any other potential benefits.

Potential Receiver Control Features

If the Board were to adopt an earlier opening time for the Fedwire book-entry securities transfer service, participation in earlier hours would be voluntary. Unlike the Fedwire funds transfer service, however, voluntary participation in expanded Fedwire securities transfer hours would be more complex. Under current DVP design, banks do not have the capability to control the timing of incoming securities deliveries and associated debits to their funds accounts. Accordingly, banks have limited control over the effect of securities-related debits on their reserve account position

⁷ On most days, participants in the futures and options markets may not need access to the financial markets to cover their settlement positions because such positions generally are small enough to be covered by cash or lines of credit extended to participants by their settlement banks. On peak settlement days, however, settlement positions can be quite substantial, requiring other sources of funding.

⁸ Although approximately 95 percent of the turnover of U.S. Treasury securities occurs in the United States, active markets exist in London and Tokyo as well.

and their use of Federal Reserve securities-related intraday credit. Because of the inability to review transfers prior to receipt, these control limitations may be compounded if the securities delivery is not known or if the delivery amounts are incorrect. Although receivers of securities can reverse transfers received in error virtually immediately after delivery and payment occur, they must actively monitor and manage their securities activity in order to do so.

Opt-in Feature

If the Board decides that expanded Fedwire securities transfer hours are desirable, the Board proposes that the NBES would provide an "opt-in" feature for securities transfer customers to ensure that earlier hours could be provided without imposing significant, unwanted operating costs on banks that did not have reason to participate in earlier hours. Banks would be able to choose whether to participate during expanded hours, and only transfers among banks that had elected to participate would be allowed. No entries would be made against the accounts of banks that had decided not to participate in earlier hours; transfers sent by or to these banks would be rejected. Further, any transfer rejected during expanded hours would have to be re-submitted after 8:30 a.m. ET when all active accounts would be eligible to receive and send securities transfers.

Banks that choose to participate during earlier hours would be required to accept incoming transfers from the opening of the Fedwire securities transfer service until the close of the securities transfer service. In order to minimize rejected transfers during expanded hours, the Federal Reserve Banks would provide banks with information regarding the banks that had elected to participate. At least initially, participation during earlier hours would likely consist of a small group of banks; however, should the need arise, banks that normally did not participate in expanded hours would have the option of notifying the Reserve Bank late in the prior day that they wish to participate in expanded hours the next day. This feature may be particularly helpful during times of market stress.

Opt-in at Securities Account Level

The Board requests comment on the benefits and other implications of providing banks the flexibility to participate during earlier operating

hours at the securities account level.⁹ If this flexibility were provided, banks could elect to participate during earlier hours with respect to specified securities accounts and not participate with respect to other securities accounts. For example, a bank could choose to opt-in for its securities account containing dealer securities but not for its securities account containing investment securities.

Other Receiver Control Features

The Board requests comment on the desirability and market implications of incorporating certain receiver control features into the NBES that would address difficulties banks have managing their reserve account positions due to the receipt of unanticipated securities transfers. Currently, the receipt of unanticipated securities may trigger or increase a daylight overdraft in the receiving bank's account. The Board requests comment on the potential use of these features during expanded as well as core operating hours. If implemented, the use of receiver control features would be optional.

The proposed receiver control features would rely on receipt instructions submitted by the receiving bank. These instructions would include CUSIP, sending and receiving bank, third-party information, and par and payment amount of the transfer, as well as the day the securities are expected to be received. Banks would enter these instructions and transmit them to the NBES prior to or on the day of anticipated receipt, and would have the ability to add and delete instructions as necessary throughout the day.

The receiver control features differ in the action that would be taken by the Reserve Bank based on its comparison of an incoming securities transfer to the receipt instructions provided by the receiving bank. The Reserve Bank simply could flag transfers that did not match the receipt instructions; it could automatically reverse an unmatched transfer; or it could reject an unmatched transfer. As described below, the Board is particularly concerned with the potential adverse market effects, including gridlock, of a receiver control feature that would automatically reverse or reject a transfer to the extent that such a feature is used with respect to a significant proportion of Fedwire book-entry securities transfers.

⁹ A securities account is an account at a Reserve Bank containing book-entry securities held for a participant. A participant may use different securities accounts to segregate securities held for different purposes.

1. Notification of Unmatched Transfers

Under the first possible receiver control feature, any securities sent to the receiver could be processed with the associated accounting entries to the bank's securities and funds accounts. If no receipt instructions were found by the NBES, a message indicating or "flagging" the receipt of an unmatched transfer could be provided to the receiver. The receiver could then review the transfer and determine whether or not to reverse it. If a notification feature were provided, it could be available for implementation during core business hours soon after the conversion of all twelve Reserve Banks to the NBES.¹⁰

2. Automatic Reversal of Unmatched Transfers

Under the second possible receiver control feature, if no receipt instructions were found, the NBES could automatically reverse the transfer and associated accounting entries. This reversal would be completed within a few minutes of the initial transfer and accounting entries. If an automatic reversal feature were provided, it also could be available for implementation during core business hours soon after the conversion of all twelve Reserve Banks to the NBES.

3. Automatic Rejection of Unmatched Transfers

The Board also has considered a third possible receiver control feature whereby transfers for which there were no matching instructions found could be automatically rejected with no accounting entries made to the sender's or receiver's funds or securities accounts. If an automatic rejection feature were provided, it could not be made available until a later release of the NBES.

In considering these potential features, the Board understands that most Fedwire book-entry securities transfer participants using computer-interface connections already are able to provide features for their customers that permit comparison of incoming securities against pre-loaded instructions. Therefore, the Board proposes that, if a notification of unmatched transfers and/or an automatic reversal of unmatched transfers was implemented in the NBES, its availability be limited to customers with a Fedline or equivalent

¹⁰ SHARE currently provides a simple matching capability that allows receivers to enter receipt and deliver instructions to facilitate the turnaround of securities. A similar feature will be available during the implementation phase of the NBES to banks that access the book-entry system via a Fedline connection.

connection.¹¹ Because an automatic rejection of unmatched transfers cannot be replicated by book-entry participants, the Board believes that, if implemented in the NBES, this feature would have to be made available to all Fedwire securities transfer customers.

The Board believes that an automatic reversal or automatic rejection feature, if used by the larger book-entry securities participants, could adversely affect the smooth functioning of the government securities market. If a bank used the automatic reversal or automatic rejection feature, it would have the responsibility to submit receipt instructions to the NBES prior to the origination of the securities transfer by the sender. The Board believes that significant changes in how dealers and clearing banks exchange information to facilitate securities settlement would be required if an automatic reversal or automatic rejection feature were to be used by the clearing banks. Under Public Securities Association good delivery guidelines for dealers and clearing banks, dealers are required to submit delivery instructions to clearing banks by 12:00 noon ET on the settlement date for next-day trades and as soon as is practicable for same-day trades. With an automatic reversal or automatic rejection feature, clearing banks would be unable to "hold" transfers received in the morning for the dealers to review, thus increasing the likelihood that a large number of good trades would be reversed or rejected back to the sender.

The Board expects that banks would use an automatic reversal or automatic rejection feature to control the effects of daylight overdrafts in their accounts as a result of securities sent in error. It is possible, however, that some banks would use these features to control the time of day that anticipated securities deliveries are received. For example, if a bank was expecting a large securities delivery on a certain day but would not have funds available to cover the receipt until the afternoon, it could delay loading receipt instructions or load incomplete receipt instructions to ensure that securities delivered in the morning would be reversed or rejected. Public Securities Association good delivery guidelines stipulate that counterparties must accept delivery of

¹¹ Off-line customers must provide receipt instructions to the Federal Reserve Bank regarding anticipated incoming transfers prior to the delivery of the securities. By no later than March 1, 1995, any securities received for an off-line customer for which receipt instructions have not been provided will be immediately reversed. As such, off-line customers already are provided with a means to control the delivery of unanticipated securities.

securities for which they have executed a trade; thus any improper use of "DKs," or reversals, would be regulated by the market. These guidelines, however, do not appear to address the treatment of rejected transfers. The use of these features potentially could cause gridlock in the market if banks manipulated the use of receipt instructions to control the time of delivery of incoming securities. The Board requests comment on the potential effects on the efficiency of the government securities market if an automatic reversal or automatic rejection capability were to be used by the major clearing and custody banks.

Operational and Procedural Changes Associated with Expanded Fedwire Book-Entry Securities Transfer Hours

The Board anticipates that, at least initially, most banks would elect not to participate in expanded book-entry transfer hours. The Board believes that no costs would be imposed on banks that chose not to participate.

Banks that have a need to participate in expanded hours would incur increased costs that would likely fall into two categories: (1) one-time costs to modify automated systems, and (2) ongoing costs to maintain and staff securities processing operations during the expanded hours.

Software and hardware modifications necessary for banks to operate during expanded hours may include enhanced end-of-day processing, capacity upgrades, enhanced contingency operations, and design features that would permit certain customers the ability to transfer securities while others would remain closed and possibly the ability to accommodate the use of receipt instructions. These changes could involve significant lead time and resources for development and testing, particularly at clearing banks, custody banks, and dealers.

In addition to system changes, earlier Fedwire securities transfer hours would affect the processing schedules of private clearing organizations, dealers, and the clearing banks. For example, end-of-day processing operations at clearing banks and trade comparison and netting operations of the Government Securities Clearing Corporation extend well beyond the close of the Fedwire securities transfer system into early morning hours of the next day. These schedules may have to be significantly condensed to accommodate an earlier Fedwire securities transfer opening time.

The Board requests comment on system modifications that would be required for banks to participate during

earlier operating hours as well as the costs associated with implementing these modifications. The Board also requests comment on the incremental ongoing costs associated with operating during expanded hours. Further, the Board requests comment on the changes that would be required in the operations of private clearing organizations, dealers, and clearing banks in order to accommodate earlier Fedwire securities transfer hours, and associated costs.

The increase in Federal Reserve Bank ongoing operating costs to support a potential expansion of Fedwire securities transfer hours is expected to be small relative to the total cost of providing the Fedwire securities transfer service. Changes in the Fedwire securities transfer system to accommodate expanded hours processing would require significant lead time.

Fedwire Book-Entry Securities Transfer System Closing Time

The Board also requests comment on a proposal to close the Fedwire securities transfer service at 3:00 p.m. ET for transfers and 3:30 p.m. ET for reversals, beginning in January 1996. The current published closing time is 2:30 p.m. ET for transfers and 3:00 p.m. ET for reversals; however, until recently these times were extended routinely to accommodate transaction processing volumes at large market participants.¹² By establishing a firm closing time, extensions would be granted only in response to significant operating problems at a bank or major dealer or to prevent market disruption.

The present closing time was established with the creation of the Fedwire book-entry system in the late 1960s. The closing time has remained unchanged even though the size of the government securities market has grown tremendously in terms of volume and number of issues in the past two decades.

Prior to April 1994, about 20 percent of the value of securities transfers on Fedwire were processed by 10:00 a.m. ET, 40 percent by noon, and 75 percent by 2:00 p.m. The Fedwire securities transfer system typically closed at 4:00 p.m., one hour past its designated closing time. Since the implementation of daylight overdraft pricing on April 14, 1994, efficiencies gained in the trading and processing operations of dealers and clearing banks have altered the securities transfer processing cycle. Currently, almost 40 percent of the value of securities transfers are

processed by 10:00 a.m., more than 60 percent by noon, and 90 percent by 2:00 p.m. The Fedwire securities transfer system has been closing on average by 3:30 p.m., including the reversal period.

The Board believes that a firm closing time for the Fedwire securities transfer service would benefit market participants by reducing uncertainty. Both the Federal Reserve and market participants would be better able to plan staffing and other resource needs and thereby control costs with greater certainty than today.

In addition, the Board believes a firm closing time would be desirable in an expanded Fedwire funds transfer operating hours environment. Because the end-of-day processing time at banks that participate in expanded funds transfer hours will be compressed by a 12:30 a.m. ET opening, routine securities extensions that in turn affect the closing of the funds wire at 6:30 p.m. ET would further compress the time available for back-office processing.

Competitive Impact Analysis

In considering an operational or legal change that would affect a Federal Reserve Bank priced service, the Board determines whether the change would have 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 constraints or due to a dominant market position of the Federal Reserve deriving from such legal differences.

Other providers of securities transfer services do not provide services that are directly comparable to the Fedwire book-entry securities transfer service, because only the Federal Reserve Banks can provide final delivery-versus-payment of securities settled in central bank money. There are other private-sector systems, however, such as the Government Securities Clearing Corporation and the Participants Trust Company, that facilitate primary and secondary market trades of U.S. Treasury and agency securities. Other transactions involving U.S. government securities may be cleared and settled on the books of banks to the extent that the counterparties are customers of the same bank.

The Board does not believe that expansion of Fedwire book-entry securities transfer operating hours, the implementation of receiver control features on the Fedwire book-entry securities transfer system, or the establishment of a firm closing time for the Fedwire securities transfer system would have a direct and material

¹² Since 1985 the average actual closing time has moved from 5:30 p.m. ET to 3:30 p.m. ET.

adverse effect on the ability of other service providers to offer similar services. These private-sector service providers could expand their operating hours to coincide with Fedwire operating hours, and could provide receiver control features to their participants. The Federal Reserve Banks, however, would maintain their unique position of providing risk-free central bank settlement.

Request for Comment

The Board requests comment on the potential benefits, costs, and market effects associated with expanding its on-line book-entry securities service operating hours and the receiver control features that should be incorporated in NBES if operating hours are significantly expanded or that should be available during core business hours. The Board also requests comment on establishing a firm closing time of 3:00/3:30 p.m. ET for the Fedwire book-entry securities transfer service. Specifically, the Board requests comment on the following:

Potential Benefits of an Earlier Fedwire Book-Entry Securities Transfer Opening Time

1. Do the commenters concur with the benefits described in this notice for opening the Fedwire book-entry on-line securities transfer service earlier in the day? Are there benefits beyond those identified in this notice to expanded Fedwire securities operating hours?

2. Should the Board open the Fedwire securities transfer service earlier in the day? If so, would sometime shortly after the implementation of expanded Fedwire funds transfer hours be a reasonable effective date (i.e. 1998-1999)? What is the optimal opening time in the short-term (i.e. 1998-1999)? The long-term?

3. If the Board were to implement an earlier (12:30 a.m. ET or other) opening time for the Fedwire securities transfer service in the 1998-1999 time frame, do commenters believe that they would participate during the expanded hours?

Potential Receiver Control Features

4. Should the ability to opt-in to expanded Fedwire securities transfer hours be provided at the securities account level? Why or why not?

5. Would the first two receiver control features, i.e. (1) notification of unmatched transfers, (2) automatic reversal of unmatched transfers, provide an adequate means for Fedline customers to control the use of securities-related intraday credit during earlier operating hours? If so, which feature(s) would be useful and why?

Would either of these features be useful for Fedline customers during core operating hours? If so, which feature(s) would be useful and why?

6. Are receiver control features incorporated in the systems of computer-interface banks today? Please describe these features. To what extent are these features used by customers of computer-interface banks? Should notification of unmatched transfers or automatic reversal of unmatched transfers be provided to computer-interface banks? If yes, which feature(s) should be provided to computer-interface banks?

7. What would be the effects on the efficiency of the government securities market if an automatic reversal or automatic rejection feature were to be used during core or earlier operating hours by clearing banks? If either of these features were provided, what is the likelihood that the feature(s) would be used to control the time-of-day of the receipt of incoming securities? Would the market effects of automatic rejection differ from those of automatic reversal? If yes, in what ways?

8. Are there other features that should be considered for the National Book-Entry System for use during expanded hours only (e.g. free deliveries only, separate type codes)? Please describe.

9. Should any of the possible receiver control features described in this notice and any other receiver control feature described by the commenter be offered at the securities account level?

10. Would the implementation of expanded securities transfer operating hours or receiver control features require revisions to PSA good delivery guidelines or accounting practices? If yes, what changes would be required?

Operational and Procedural Changes Associated with Expanded Fedwire Book-Entry Securities Transfer Hours

11. What changes would need to be made to the automated systems, operating procedures and/or policies of banks and their customers in order to participate in the Fedwire book-entry securities transfer system during expanded hours if an earlier opening time were adopted? What costs (e.g. systems, staff, operational, contingency) would be incurred as a result of earlier Fedwire securities transfer hours? Please explain and differentiate between short- and long-term costs and between capital investments and operating costs.

12. How would an expansion of book-entry operating hours affect the operations of other securities depositories or clearing organizations and the entities that use the services of these organizations (e.g. Participants

Trust Company, Government Securities Clearing Corporation)? Please describe. What costs would be incurred as a result of any operational changes at these institutions?

13. Do the potential benefits of expanded hours outweigh the potential costs in the short-term? The long-term?

Fedwire Book-Entry Securities Transfer System Closing Time

14. Should the Board implement a firm closing time for the Fedwire securities transfer service? If so, would a 3:00/3:30 p.m. ET firm closing time be appropriate? Would January 1, 1996 be an appropriate effective date for implementing a firm closing time?

15. Should a later closing time be considered for the securities transfer service instead of or in addition to an earlier opening time?

16. How much time is necessary between the close of the Fedwire book-entry service and the opening of the Fedwire funds transfer service in the short-term? The long-term?

By order of the Board of Governors of the Federal Reserve System, December 21, 1994.

William W. Wiles,
Secretary of the Board.

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