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Via electronic submission

September 4, 2024

Ann Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

RE: EXPANSION OF FEDWIRE® FUNDS SERVICES AND NATIONAL SETTLEMENT SERVICE OPERATING HOURS [DOCKET NO. OP-1831]

Dear Ms. Misback:

The Independent Community Bankers of America (“ICBA”)¹ welcomes the opportunity to respond to the Federal Reserve Board's Request for Comment on the Expansion of Fedwire Funds Service (“Fedwire”) and National Settlement Services (“NSS”) Operating Hours. The Board of Governors of the Federal Reserve System (“Board”) proposes expanding the operations of Fedwire and NSS to include weekends and holidays.

Summary

On behalf of its members, ICBA strongly opposes the proposed expansion of Fedwire and NSS operating hours. Expanding these services to 22 hours per day, 7 days a week, every day of the year (22x7x365), would increase staffing for wire operations from the current 249 days per year to 365 days, representing a 47% increase in workdays for staff dedicated to wires alone, without factoring additional ancillary staffing that will be required. There is minimal consumer demand for extended Fedwire and NSS availability, and the proposed expansion would place significant burdens on community banks to staff weekends and holidays for what is likely to be a very low volume of transactions.

¹ The Independent Community Bankers of America® has one mission: to create and promote an environment where community banks flourish. We power the potential of the nation’s community banks through effective advocacy, education, and innovation. As local and trusted sources of credit, America’s community banks leverage their relationship-based business model and innovative offerings to channel deposits into the neighborhoods they serve, creating jobs, fostering economic prosperity, and fueling their customers’ financial goals and dreams. For more information, visit ICBA's website at icba.org.

ICBA advocates for the development and implementation of the FedNow Service (“FedNow”). We are additionally concerned that prioritizing the expansion of Fedwire could hinder the adoption of FedNow, which provides real-time gross settlement (“RTGS”) payments 24x7x365 days a year, with the exception of the largest transactions. If the Board proceeds with the expansion of Fedwire and NSS, ICBA recommends delaying implementation until at least 2028, adopting a phased approach, and permanently excluding holidays.

Community Banks Support Faster Payments

ICBA and our members support the Board's efforts to advance faster payments in the United States, ensuring that community banks have both access and choice within the payment system. When the Board launched its payments improvement initiative in 2012, community bankers quickly recognized the value of developing a faster, more efficient, and safer payment system.

With the launch of FedNow in 2023, ICBA strongly encouraged community banks to adopt this new instant payment service. Now, more than a year later, community banks make up a significant portion of FedNow's participants. FedNow is empowering community banks to offer innovative services and access to a wide range of use cases, and ICBA continues to support their efforts to adopt and utilize FedNow. Similarly, ICBA supports Same Day ACH, which evolved since its introduction to enhance capabilities for community banks and their customers. Like FedNow, Same Day ACH provides substantial value to the payment ecosystem.

It is important to note that FedNow and Same Day ACH are fundamentally different from Fedwire and NSS. FedNow and Same Day ACH are retail payment systems that facilitate low-value transactions between consumers and businesses. FedNow offers instant access to funds, addressing a significant portion of consumer transactions needs. In contrast, Fedwire and NSS are mainly wholesale payment systems typically handling higher-value transactions between financial institutions. These systems serve distinct purposes and, as such, have different operational requirements and risk management frameworks.

Proposed Action

The Board proposes expanding Fedwire and NSS to 22 hours per day, 7 days a week, every day of the year. Fedwire and NSS daily operating hours are 22 hours for Fedwire and 21.5 hours for NSS will remain unchanged. The Board states participation in the expanded operating days would be optional. The effective date for expansion is 2027, or no earlier than two years after the transition to ISO 20022, which Fedwire is scheduled to adopt in March 2025. Fedwire Securities Service is excluded from the request for comment.

Service	Current Hours	Current Days	Proposed Hours	Proposed Days
Fedwire	9:00 PM ET – 7:00 PM ET	Monday – Friday excluding holidays	9:00 PM ET – 7:00 PM ET	everyday
NSS	9:00 PM ET – 6:30 PM ET	Monday – Friday excluding holidays	9:00 PM ET – 6:30 PM ET	everyday

The Board’s proposal acknowledges that other payment system improvement initiatives have been prioritized over the expansion of Fedwire and NSS operations. The proposal details the challenge financial institutions would face with no operational downtime to accommodate system changes and other operational activities.² The proposal acknowledges that community banks do not see a strong business case or urgent need for the investment required to operate on expanded days, yet, nevertheless, proceeded with the proposed expansion.³

Fedwire and NSS Background

Fedwire was introduced in 1915 and has been operational for nearly 110 years. Fedwire handles both interbank and consumer transactions, with local Federal Reserve Banks crediting funds to their member banks’ master accounts. Over the years, Fedwire has evolved from Morse code to teletype machines, DOS, and now web-based messages. The next planned upgrade for Fedwire is to incorporate ISO 20022, a data-rich international messaging standard that has been around for twenty years. This transition is scheduled for 2025 and is a prerequisite for expanding Fedwire’s operating hours.⁴ NSS is a multilateral settlement service that allows for immediate, final, and irrevocable settlement of obligations arising from private-sector clearing arrangements, such as check clearinghouses and private-sector Automated Clearing House (“ACH”) networks.⁵

Fedwire and NSS are used to settle ACH transactions between institutions, an example of large-dollar interbank traffic. ACH transactions are electronic store and forward messages made across ACH networks. The ACH system traces its roots to 1968, developed to handle the growing volume of paper checks. Since the early 2000s, FedACH, the Federal Reserve’s public ACH system, and EPN, an ACH system privately owned by The Clearing House, are the only two remaining nationally operating ACHs. Fedwire and NSS made the ACH system

² *Expansion of Fedwire Funds Service and National Settlement Service Operating Hours*, 89 Fed. Reg. [39614] (May 9, 2024).

³ *Id.* at [39615].

⁴ Federal Reserve Financial Services, *What Is ISO 20022 and Why Does It Matter?* (last visited August 29, 2024), <https://www.frbservices.org/financial-services/fednow/instant-payments-education/what-is-iso-20022-why-does-it-matter.html>.

⁵ *Fedwire Expansion*, *supra* note 1, at [39616].

ubiquitous and interoperable by allowing the messages created on the FedACH and EPN systems able to batch settle across platforms and financial institutions. The interoperability in ACH, powered by Fedwire and NSS, allowed ACH to serve consumers by processing over 31 billion transactions valued at more than \$80 trillion in 2023.⁶

ICBA Concerns with Expansion of Fedwire and NSS to Weekends and Holidays

The Board states the proposed Fedwire expansion directly addresses industry requests for improved liquidity management to support FedNow. ICBA fully supported the development and implementation of FedNow. However, ICBA believes expanding Fedwire will slow the adoption of FedNow, offer minimal benefits to consumers, and increase consumers' exposure to fraud and scams.

Expanding Fedwire and NSS to 22x7x365 operation could also enable other payment types, such as ACH, to extend their hours and potentially require settlement services on weekends and holidays. The Board's 2021 adjustment to Fedwire and NSS, which added an hour to NSS closing times and extended Fedwire to 7 pm, was made to accommodate an additional settlement window for ACH. It is reasonable to assume that further extending Fedwire and NSS to weekends and holidays could allow ACH to operate on weekends and holidays.

Expanding these services to 22 hours per day, 7 days a week, every day of the year, would increase operations dramatically from the current 249 days per year. There is minimal customer demand for extended Fedwire and NSS availability, and the proposed expansion would place significant burdens on community banks to staff weekends and holidays for what is likely to be a very low volume of transactions. ICBA fully supports giving consumers instant access to their funds through FedNow along with debit and credit card payment rails currently in place. A rich payment ecosystem does not require on-demand instant availability of every payment network.

ICBA appreciates the opportunity to provide specific answers to questions posed by the Board in the request for comment.

Community banking industry sees no benefits

1. What are the primary benefits to the banking industry, financial markets, and broader economy from an expansion to 22x7x365 Fedwire Funds Service and NSS operating hours? What are the primary benefits to your institution?

⁶NACHA, Celebrating NACHA's 50th Anniversary (last visited Aug. 29, 2024), <https://www.nacha.org/50th-anniversary#pageContent-3060>.

While the Board's proposal states that the primary benefits to the banking industry include improved cross-border payments and liquidity management for FedNow, the Board also acknowledges that during stakeholder discussions, smaller institutions expressed a lack of pressing need and a weak business case for the expansion, given the required investment to operate daily. Consequently, ICBA member community banks (which the Board considers smaller institutions) would not benefit from the proposed changes. Community banks currently have no need for expanded cross-border payments and do not face challenges with FedNow liquidity management.

Weekend demand represents a shift of existing volume not growth

2. What will be the primary sources of demand for expanded hours for the Fedwire Funds Service and NSS, from 22x5 to 22x7x365? What types of transactions or institutions are most likely to generate demand for the ability to make payments during weekend hours? What additional use cases could be satisfied with the expansion to full24x7x365 operating hours? Would they represent sources of new and additional volume that could flow over the Fedwire Funds Service, a shift of existing volume over the service, or both?

The proposed expansion of Fedwire and NSS operating days will likely result in a shift in transaction timing, not an actual increase in transaction volume. The potential for growth in consumer non-cash transactions is declining, so expanded operating days would only lead to existing transactions being spread out over more days. Data from the Federal Reserve's payment study supports this view.⁷

The study shows ACH debit and credit transactions represent the largest value of non-cash payments, while debit and credit cards are the most frequent payment methods by number of transactions.⁸ The difference highlights that consumers primarily use ACH for larger, less frequent transactions like payroll deposits and bill payments, while debit and credit cards are used for everyday spending. The study does not state why consumer wire data is excluded.

While consumers use wires for significant purchases such as cars or real estate, the ability to send wires on weekends will not increase the volume or value of these transactions as expanded availability of wires does not drive transactions. Moreover, negative consequences are foreseeable. Community banks are concerned that expanding Fedwire will increase the window of opportunity for scammers to target consumers. Expanding Fedwire and NSS operating days could also benefit the ACH system, an older batch processing system, at the

⁷ Board of Governors of the Federal Reserve System, *Federal Reserve Payments Study*, <https://www.federalreserve.gov/paymentsystems/fr-payments-study.htm> (last visited Aug. 29, 2024).

⁸ Id. at Fig. 1; Id. at Fig. 2.

expense of FedNow, a newer real-time payment system. ICBA notes that doing so will hinder the adoption of FedNow and perpetuate the use of outdated payment methods. The Board's focus should be on transitioning consumer transactions from the 50-year-old ACH system to the modern FedNow platform.

In summary, ICBA's position is that expanding Fedwire and NSS operating days will not lead to genuine growth in transactions but will instead shift existing transaction times, increase consumer exposure to scams, and slow the adoption of FedNow. ICBA advocates for prioritizing consumer protection and focusing on transitioning to newer, more robust payment systems like FedNow.

Increasing operating days does not inherently foster innovation

3. How might expanded operating hours of the Fedwire Funds Service and NSS support private-sector innovation?

Increasing operating days does not inherently foster innovation, rather, it allows for more of the same activity on an outdated system. The Board should consider the lessons learned from ACH adoption, where improvements in check processing efficiency delayed ACH's widespread use.⁹ Similarly, expanding Fedwire's operating time could hinder the adoption of FedNow and prolong the use of checks.

The ACH system, despite being a 50-year-old batch processing system, would be able to process more files with expanded Fedwire and NSS hours. The file format used in ACH records is based on punch cards, limited to 94 characters, and is not ISO 20022. This requires financial institutions to have an ACH integration strategy rather than an ISO 20022 conversion strategy for ACH traffic. ICBA contends that increasing same-day ACH windows is not innovative but rather perpetuated use of an outdated system that is not compatible with the ISO 20022 standard.

Expanding ACH's capabilities undermines the purpose of creating FedNow, a real-time payment system that utilizes ISO 20022. FedNow is a real-time gross settlement service ("RTGS") that the Federal Reserve invested \$545 million to implement.¹⁰ FedNow uses ISO 20022 the internationally accepted messaging format, enabling rich data exchanges and providing efficient end-to-end straight-through payments processing with up to 4,000

⁹ Federal Reserve History, *Automated Clearing House Payments*, (September 28, 2023), <https://www.federalreservehistory.org/essays/automated-clearing-house>.

¹⁰ Board of Governors of the Federal Reserve System, *110th Annual report of the Board of Governors of the Federal Reserve System*, (2023), <https://www.federalreserve.gov/publications/files/2023-annual-report.pdf>.

characters.¹¹ If the Board wants FedNow to succeed, it should not diminish its operational advantages by expanding Fedwire and NSS operating days.

Other payment systems, like credit cards, rely on Fedwire and NSS for interbank settlement. While expanded operating hours could allow for weekend settlement, this will not lead to increased speed innovations. Recent credit card innovations have focused on security enhancements like tokenization and chip cards, not faster settlement. Expanding Fedwire and NSS would simply allow for the distribution of data files over the weekend, not contribute to meaningful innovation.

Expanding Fedwire and NSS will hinder FedNow growth

4. How does the existence of the FedNow Service affect your views of the benefits of expanded hours for the Fedwire Funds Service and NSS? How do you anticipate using these services in the future?

Although FedNow, Fedwire, and NSS serve different market segments, they can be used interchangeably within FedNow's transaction limit when same-day, non-instant payments are needed. Since FedNow operates 365 days a year, its availability reduces the need to extend Fedwire and NSS operating hours for retail customers. Most retail payment needs are already met by FedNow's capabilities, while larger transactions, such as real estate purchases, typically require wires that are scheduled in advance. Expanding Fedwire to weekends and extending its hours could hinder the growth of FedNow by allowing older, less efficient systems to compete more effectively.

FedNow is a superior system for RTGS transactions, as it employs the ISO 20022 standard, a robust international format. While Fedwire and NSS provide essential support for the interoperable ACH system, enabling settlements between banks regardless of their ACH provider (FedACH or EPN), and increasing their operating hours might increase reliance on the ACH system, thereby slowing FedNow's adoption.

The interconnectedness of Fedwire and NSS benefits the ACH system but also presents risks. FedNow offers a redundant and independent system that enhances payment risk mitigation and security. Therefore, Fedwire and NSS should maintain their current operating hours, focusing on scheduled, non-urgent transactions. The ACH system, though safe and effective, operates on a store-and-forward batch process. Reducing inefficiencies in the ACH system could discourage innovation and delay the adoption of newer real-time payment systems.

¹¹ Federal Reserve Financial Services, *Asked and Answered: FedNow ISO 20022 Message Specifications*, <https://www.frbservices.org/financial-services/fednow/blog/asked-and-answered-iso-20022.html>, (last visited Aug. 29, 2024).

A multi-stage interim expansion is necessary

5. Do you prefer an interim expansion of operating hours before moving to 22x7x365? If so, what operating hours for the Fedwire Funds Service and NSS would be most useful for your institution? What considerations factor into your preference?

ICBA does not support the Board's proposal to move to a 365-day operating schedule. If the Board proceeds, we urge a phased implementation to allow banks sufficient time to adjust staffing levels and update risk management protocols. The proposed expansion would result in a substantial 47% increase in operating days,¹² affecting various bank departments beyond wire transfers.

The 11 federal banking holidays should be permanently excluded from the expanded schedule. The Federal Reserve operating on federal holidays contradicts the mission behind the federal government declaring the holiday. Excluding federal banking holidays also helps protect consumers. A wire transfer is a common method scammers use to target consumers, especially during the holidays when people are more vulnerable. The Board should restrict wire transfer access on these days to protect consumers. ICBA also requests that six non-holiday weekends each year be set aside for 48-hour downtime periods, to allow banks to perform essential system maintenance and upgrades.

In addition to excluding banking holidays, operations should not be expanded beyond six days per week should the Board approve expansion. This will allow the Board to assess the impact of expanded operating hours and give banks time to adjust staffing levels appropriately. Given the significant increase in operating days, a cautious, phased approach is essential. This interim period should last a minimum of two years, with any further expansion tied to a measurable increase in overall industry volume, rather than a shift from weekday to weekend transactions.

The timeline should be contingent on ISO 20022 implementation

6. What is your preferred timeline for a potential expansion of Fedwire Funds Service and NSS operating hours to 22x7x365? What considerations factor into your preference (for example, demand, time to implement changes, adjustments to staffing and internal systems, other major industry milestones or payment system improvements)?

¹² Fedwire currently operates ((5 days a week) *(52 weeks a year) = 260 days) – (11 current federal holidays) = 249 days a year. The proposal is for operating 365 days a year, a 116 day increase (365 proposed days - 249 current days), not counting leap years.

Should the Board move forward with expanding Fedwire and NSS, any changes to Fedwire and NSS operating hours should be delayed until at least two years after the ISO 20022 transition is complete, and not before 2028. This timeline mitigates any issues arising from the ISO 20022 implementation and allows issues to be fully resolved before considering operational expansions.

Any expansion of Fedwire and NSS be delayed until at least 2028 and until FedNow transaction volumes are well-established. Additionally, a fully developed and tested opt-out system must be in place to allow community banks to choose whether to use expanded Fedwire and NSS. The Board's proposal for expanded daily operations requires a clear definition of "banking days." In private contracts, many rely on the Federal Reserve's operating schedule. Banks and their partners need time to establish their own definitions of banking days independent of Federal Reserve services.¹³

Community banks expect increases in costs

8. What costs and risks would arise for the banking industry, financial markets, and broader economy from an expansion to 22x7x365 of Fedwire Funds Service and NSS operating hours? What are the costs and risks to your institution? What is the estimated incremental cost on a percentage basis to support 22x7x365 operating hours for the Fedwire Funds Service and NSS are the implications for competitiveness?

The costs and risks associated with the proposed expansion are significantly greater than the Board's initial assessment. The risks to the banking industry include increased operational costs, technological challenges, heightened fraud risk, potential expansion risks from other payment services, and regulatory compliance burdens. The 47% increase in operating days will directly impact banks' baseline costs, as they will need to staff operations on Saturdays and Sundays. Additionally, the increased operational demands will affect community banks' technology partners, leading to higher costs that will likely be passed on to the banks.

The broader economic risks and costs associated with the expansion are primarily related to consumer scams. While the Board focuses on interbank and large-value transactions, the underlying reason for these transactions is to meet customer needs. Expanding Fedwire and NSS operating hours without adequate fraud prevention measures could expose consumers to greater risk.

¹³ 12 C.F.R. § 229.2(g) (2024).

Globally significant banks will benefit, community banks will incur costs

9. What are the ways in which benefits, costs, or risks of 22x7x365 Fedwire Funds Service and NSS could vary for different types of market participants (for example, for smaller institutions, non-traditional participants, or participants in particular time zones)?

The advantages, costs, and risks of 22x7x365 Fedwire and NSS operations will not be distributed equally among market participants. Large, globally significant banks (“G-SIBs”) stand to gain the most, with minimal costs, as expanded services would facilitate their high-volume cross-border transactions. While community banks also engage in cross-border transactions, the volume is significantly lower, and the demand does not significantly impact their profitability.

In contrast, community banks would face the highest cost increases due to the need for additional staffing to support expanded operating hours, and risk management oversight. Regardless of the transaction amount, human oversight is necessary. The economies of scale favor G-SIBs, reinforcing their “too big to fail” status.

While banks located on the west coast could benefit from later closing times, the current proposal only adds operating days, not hours, so the daily cutoff time remains unchanged.

The ability to opt out of expanded hours is not sustainable

11. The Federal Reserve plans to maintain the ability to opt out of expanded hours. How would the optionality with respect to participating in a 22x7x365 operating hours environment of the Fedwire Funds Service and NSS, as described in this notice, benefit or challenge your institution or the broader industry? What steps might the Federal Reserve take to augment potential benefits? What steps might the Federal Reserve take to mitigate potential costs and risks?

The Board indicated its intention to provide an opt-out mechanism for the expanded hours but has not yet detailed how this would function. The Board specifically mentioned the risk of a “Herstatt risk” if institutions are allowed to opt out, suggesting that the optional participation system might allow accounts to receive funds but not send them.

ICBA supports an optional use of expanded operating days, but community banks believe it would not be sustainable if services like ACH also expand their operating hours. The Board's proposal could create competitive pressure, forcing community banks to adopt the expanded hours even if they initially chose to opt out, further favoring the nation’s too big to fail institutions over community banks.

Liquidity options need expanded hours

12. How does your institution anticipate managing liquidity needs in an expanded hours environment? Is the availability of discount window loan originations on weekends and holidays a prerequisite for expanded operating hours for the Fedwire Funds Service and NSS? If so, should the discount window be available 22x7x365, or alternatively, during certain defined hours on weekends and holidays? During what hours should discount window loan originations be available?

Discussing liquidity needs for expanded hours is premature. Community banks typically manage their liquidity needs through their Federal Home Loan Bank (“FHLB”) and the discount window. If community banks are expected to manage liquidity on a 22x7x365 basis, services supporting liquidity management, such as access to the discount window and FHLB, must also operate in sync with the same timetable.

Community banks have historically taken a prudent approach to liquidity, including contingency liquidity, planning. The FHLB and discount window serve as stable sources of liquidity for community banks, but are used for different purposes and liquidity events. Community banks should have the option to choose their liquidity management source rather than being compelled to use the discount window. The discount window provides short term funding, while FHLB advances are often structured to allow community banks to manage their liquidity and in their communities through the economic cycle. In addition, while the discount window requires banks pledge securities as collateral, the FHLBs accept whole loans or securities as collateral, providing more flexibility for community banks that may only be able to pledge whole loans. Depending on external and internal economic factors impacting liquidity management, community banks should retain the ability to utilize the source of funds that is most appropriate and in line with their plan.

Reducing check usage and developing fraud tools should be prioritized.

14. Describe any other enhancements or initiatives that the Reserve Banks should consider in addition to, or in the context of, expanded hours for the Fedwire Funds Service and NSS. How would such potential enhancements be used in the context of expanded hours? Are there any potential service enhancements that should be prioritized ahead of expanded hours?

The Board prioritized other payment system improvements, such as launching FedNow and transitioning to ISO 20022, over expanding Fedwire's operating hours. ICBA strongly urges the Federal Reserve to address check fraud, ensure complete industry wide ISO 20022 adoption, and implement fraud prevention tools for Fedwire before expanding its operating days.

Expanding Fedwire and NSS operating hours could inadvertently facilitate check fraud by enabling check processing seven days a week. The slow adoption of ACH in the 1980s due to increased check processing efficiency serves as a cautionary tale. In 2023 check fraud losses surpassed \$20 Billion and represented over 30% of all bank fraud.¹⁴ Maintaining inefficiencies in the check system could encourage the adoption of safer payment methods.

The Fedwire transition to ISO 20022 should be completed before any expansion of Fedwire and NSS additionally, we support a two-year buffer period after the transition to ISO 20022 is complete. The industry needs to adapt to the enhanced data provided by ISO 20022 and along with the development and deployment of fraud and risk management tools, such as a confirmation of payee tool for Fedwire, to protect consumers and prevent errors. The proposed 47% increase in operating time without adequate fraud controls raises concerns for community banks.

Conclusion

ICBA opposes the 22x7x365 proposed expansion of Fedwire and NSS operating hours. Nevertheless, if the Board proceeds with the expansion, ICBA recommends delaying implementation until 2028, adopting a phased approach, and keeping holidays closed. Expanding Fedwire and NSS to increase operating days by 47% will result in higher costs for community banks that outweigh any potential benefits.

Community banks support consumers with safe, secure, and fast access to their funds without the risk presented herein. ICBA believes that the proposed expansion of Fedwire and NSS will only serve to slow FedNow's adoption, which already is available 24x7x365 for real-time gross settlement payments for all but the largest transactions. For further information, please contact Kari Mitchum at kari.mitcum@icba.org or (202) 821-4445.

Sincerely,

/s/

Kari Mitchum

Vice President, Payments Policy

¹⁴ Federal Reserve Financial Services, *Key Findings from the annual Federal Reserve Financial Services Financial Institution Risk Officer Survey*, (2023), <https://www.frbservices.org/binaries/content/assets/crsocms/news/research/2023-risk-officer-survey.pdf>.