FIA.org

Via email submission

September 6, 2024

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

RE: Docket No. OP-1831 (May 9, 2024) Expansion of Fedwire® Funds Service and National Settlement Service Operating Hours

Dear Ms. Misback:

The Futures Industry Association ("**FIA**")[1] appreciates the opportunity to respond to the proposal from the Board of Governors of the Federal Reserve System ("**Federal Reserve**") regarding expanding the Fedwire Funds Service and National Settlement Service operating hours ("**Proposed Rule**").[2] FIA's member firms include clearing firms, exchanges, clearinghouses, and trading and commercial firms that operate in the exchange-traded derivatives markets and have a persistent need to settle trades, transfer margin and collateral, and meet funding obligations. Settlement cycles remove risk from the system by ensuring counterparties have the proper funds and collateral to back their positions in the markets. As various markets consider expanding their hours of operation in the future, the need to run settlement cycles to remove risk from the system becomes ever more important.

Accordingly, FIA supports expanding the hours of the Fedwire Funds Service to 22 hours a day, 7 days a week, 365 days a year (with National Settlement Service hours closing 30 minutes earlier) ("**22x7x365**") for use on a voluntary basis. FIA agrees that this expansion of hours "would enhance the safety and efficiency of the U.S. payment system by extending the hours in which settlement in risk-free central bank money can occur."[3]

In addition to voicing our support for the 22x7x365 expansion, we write to highlight the following additional considerations which may require further action by the Federal Reserve as well as other market regulators and participants for the Proposed Rule to fully realize its goal of enhancing the safety and efficiency of the U.S. payment system:

---

[1] FIA is the leading global trade organization for the futures, options and centrally cleared derivatives markets, with offices in Brussels, London, Singapore and Washington, D.C. FIA's membership includes clearing firms, exchanges, clearinghouses, trading firms and commodities specialists from about 50 countries as well as technology vendors, law firms and other professional service providers. FIA's mission is to support open, transparent and competitive markets; protect and enhance the integrity of the financial system; and promote high standards of professional conduct.
[2] *Expansion of Fedwire® Funds Service and National Settlement Service Operating Hours*, 89 Fed. Reg. 39613 (May 9, 2024).
[3] *Id.* at 39614.

1. The operating hours of the Fedwire Securities Service should be extended to align with the expanded hours of the Fedwire Funds Service and National Settlement Service;

2. Current derivatives markets regulations and practices are premised on a Monday-Friday, five-business day 'workweek' for moving money. Federal market regulators, self-regulatory organizations, and market operators may have to make changes to their rules and practices, as applicable, for the Proposed Rule's benefits to be fully achieved in the context of the exchange-traded derivatives markets.

3. A reasonable implementation period and open dialogue with the Federal Reserve is needed to address technical and operational challenges posed by the Proposed Rule; and

4. Before the Proposed Rule is adopted, the Federal Reserve, market regulators and derivatives and securities market participants should meet in an open forum to discuss the potentially significant cascading effects of moving to 22x7x365.

1. The Operating Hours of the Fedwire Securities Service Should Be Extended to Align with the Expanded Hours of the Fedwire Funds Service and National Settlement Service.

The Proposed Rule expressly notes that "the Board is not considering expanding operating hours for the Fedwire Securities Service at this time."[4] A justification offered for excluding this service is that "[t]he Board does not expect the proposed expansion of Fedwire Funds Service and NSS operating hours to create significant changes in secured lending, derivatives markets, or other market activity that would necessitate expanded operating hours for the Fedwire Securities Service in the near term."[5] FIA disagrees with this statement.

We believe the expansion of the Fedwire Funds Service will lead to significant changes in the derivatives markets that very well could necessitate expanded hours for the Fedwire Securities Service. In the derivatives markets, collateral is posted as cash, securities, or some combination thereof. For example, according to data from the Chicago Mercantile Exchange from the end of Q1 2024, approximately $91 billion USD cash was posted as initial margin and approximately $167 billion USD in fixed income securities was posted as initial margin.[6] Moreover, some clients have a preference to settle in securities, because that is what they have on hand, on their end.

If settlement and liquidity transfers are truly to take place 22x7x365 in derivatives markets, securities will need to be able to settle on the same timeline. A misalignment between cash and securities settlement times will effectively prevent clearinghouses, clearing firms, and the

[4] *Id.*
[5] *Id.* at 39620.
[6] These amounts include initial margin posted for exchange-traded derivative futures and options and over-the-counter interest rate swaps. *See* CME Group, CPMI-IOSCO Quantitative Disclosure, *available at* https://www.cmegroup.com/clearing/cpmi-iosco-reporting.html#cmeIOSCOReports

derivatives market participants they service from being able to fully take advantage of the Proposed Rule.

2. **Federal Market Regulators, Self-Regulatory Organizations and Market Operators May Have to Make Changes to Their Rules and Practices for the Proposed Rule's Benefits to Be Fully Achieved in the Context of the Exchange-Traded Derivatives Markets.**

The Proposed Rule is a step in the right direction to facilitate longer trading days for exchange-traded derivatives markets; however, standing alone, it will not achieve its broader policy objectives for such markets. For example, regulatory relief, changes, and/or clarification may be required from the Federal Reserve and Commodity Futures Trading Commission ("**CFTC**"), amongst others. Questions and comments raised by these expanded hours include:

- Would activity from Saturday and Sunday be treated as if it happened on Monday for purposes of assessing residual interest impacts to futures commission merchants ("**FCMs**")?[7]

- If a client requests money back from its FCM on a Saturday and that money is "locked up" in a reverse repurchase agreement, the FCM may have to borrow money to fulfill the client's request. Would such borrowing necessitate a letter to the CFTC, and an increase to the FCM's residual interest?[8]

- Would this change require margin calls made over the weekend to be aged? Saturday and Sunday would no longer be considered a holiday/weekend. Currently, when an FCM receives a call from a central counterparty ("**CCP**"), if U.S. banks are "open" (i.e., it is not a holiday or a weekend), then margin calls must be aged.[9]

- Will money market funds be open to permit firms access to unwind and have cash liquidity?[10]

- If a U.S. bank is considered "open," customer protection computations must be run – i.e., Legal Segregation with Operational Commingling (LSOC), segregation of customer funds (seg comp), residual interest. Will this apply over the weekend and holidays?

- FCMs would need CCPs to expand their hours contemporaneously to permit settlement. If cash (and securities) cannot be moved to and from clearinghouses, clearing members will be hindered in their ability to reduce risk for their clients and thus hindered in their ability to achieve the policy objectives of the Proposed Rule.

---

[7] *See* CFTC Rules 1.23, 1.32, 22.17, 22.2, 30.7.
[8] *See id.*
[9] *See* Joint Audit Committee, Margin Handbook, Chapter 4, at 4-3, *available at* http://jacfutures.com/jac/MarginHandBookAdobe.aspx.
[10] *See* CFTC Rule 1.25.

- FIA believes the policy objectives of this proposal would be further achieved if exchanges and clearinghouses that are not designated as Systemically Important Financial Market Utilities (SIFMUs) had access to Federal Reserve Deposit Accounts too. This is a market integrity and equity issue that FIA has a history of advocating on.

- Currently, Automated Clearing House ("**ACH**") hours are 23 1/4 every *business day* and settlements occur four times a day; "[p]ayments are settled when the Federal Reserve's settlement service is open (currently, the Federal Reserve's settlement system is closed on federal holidays and weekends, and business days from 6:30 p.m. ET to 7:30 a.m. ET)."[11] Without an expansion in ACH hours, this change will be of limited utility to firms that have more of a retail client base.

3. A Reasonable Implementation Period and Open Dialogue with the Federal Reserve Is Needed to Address Technical and Operational Challenges Posed by the Proposed Rule.

As recognized in the Proposed Rule, this change, in the short term, may present technical and operational challenges.[12] For example, staffing schedules will need to be adjusted, when firms run batch processing to produce things like customer statements may need to be altered, recordkeeping systems may need to be adjusted to account for the expanded hours in which business is conducted, and customers' expectations for service on weekends and holidays will likely increase. FIA appreciates the reasonable implementation period contemplated in the Proposed Rule to allow firms to sort through these challenges. FIA also encourages the Federal Reserve to maintain an open dialogue as the launch of expanded hours approaches, to gauge industry readiness and assist in addressing challenges, where possible.

4. The Potentially Significant Cascading Effects of the Proposed Rule on Markets Should be Considered Further By the Federal Reserve, Market Regulators, and Derivatives and Securities Market Participants.

In this letter, FIA has outlined certain top-of-mind concerns and questions. However, we believe the potential cascading effects on this Proposed Rule on markets is significant and that many of the implications are unknown at this time. FIA encourages the Federal Reserve to consult with the CFTC and Securities and Exchange Commission closely on this proposal. We also believe this issue is ripe for a roundtable with the Federal Reserve, market regulators, and derivatives and securities market participants, before the Proposed Rule is finalized. In addition to the questions above, topics for discussion may include: (1) how will FX markets be impacted by this change?; (2) what are the hours of other central banks, and what benefits or limitations do any distinctions present?

[11] *See* ABCs of ACH, NACHA, *available at* https://www.nacha.org/content/abcs-ach#:~:text=The%20ACH%20Network%20is%20open,payments%20four%20times%20a%20day (emphasis added).

[12] 89 Fed. Reg. at 39614.

5. Conclusion

FIA thanks the Federal Reserve for the opportunity to comment in response to this Proposed Rule. Should you have any questions about our comment, please do not hesitate to contact me at alurton@fia.org.

Sincerely Yours,

Allison Lurton
General Counsel, Chief Legal Officer