



FEDERAL RESERVE BANK
OF DALLAS

TONY J. SALVAGGIO
FIRST VICE PRESIDENT

October 26, 1992

DALLAS, TEXAS 75222

Notice 92-102

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

SUBJECT

**Proposal to Change the Opening Time for the
Fedwire Funds Transfer Service**

DETAILS

The Federal Reserve Board has issued for public comment a proposal that would change the opening time for the Fedwire funds transfer service from 8:30 a.m. Eastern Time (ET) to 6:30 a.m. ET, effective October 4, 1993.

The Board's proposal also calls for comment on whether the Fedwire securities transfer service should open concurrently with the funds transfer service. In addition, the Board requests input from depository institutions, their customers, and the financial markets regarding the costs and benefits of possible further expansion of Fedwire operating hours over time.

The Board must receive comments by January 8, 1993. Comments should be addressed to William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, D.C. 20551. All comments should refer to Docket No. R-0778.

ATTACHMENT

A copy of the Board's notice as it appears on pages 47080-84, Vol. 57, No. 199, of the Federal Register dated October 14, 1992, is attached.

MORE INFORMATION

For more information, please contact Larry Ripley at (214) 922-6429 or Jonnie Miller at (214) 922-6433. For additional copies of this Bank's notice, please contact the Public Affairs Department at (214) 922-5254.

Sincerely,

FEDERAL RESERVE SYSTEM**[Docket No. R-0778]****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 change the opening time for the Fedwire funds transfer service from 8:30 a.m. Eastern Time (ET) to 6:30 a.m. ET, effective October 4, 1993. A 6:30 a.m. ET Fedwire funds transfer opening time would facilitate changes to the settlement practices of the futures and options markets that would reduce the risks in those markets. It would also permit a reduction in the risk associated with the settlement of foreign exchange transactions. The Board is also requesting comment on whether the Fedwire securities transfer service should open concurrently with the funds transfer service at 6:30 a.m. ET, if the earlier opening time for the funds transfer service is implemented. In addition, the Board is requesting comment on the benefits and costs to depository institutions, to their customers, and to the financial markets of further expansion of Fedwire operating hours over time.

DATES: Comments must be submitted on or before January 8, 1993.

ADDRESSES: Comments, which should refer to Docket No. R-0778, may be mailed to Mr. William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, NW., Washington, DC 20551. Comments addressed to Mr. Wiles may also be delivered to the Board's mail room between 8:45 a.m. and 5:15 p.m., and to the security control room outside of those hours. Both the mail room and the security control room are accessible from the courtyard entrance on 20th Street between Constitution Avenue and C Street, NW. Comments may be inspected in room B-1122 between 9 and 5 p.m., except as provided in § 261.8 of the Board's Rules Regarding the Availability of Information, 12 CFR 261.8.

FOR FURTHER INFORMATION CONTACT: For information regarding Fedwire funds and securities transfer operating hours,

contact Gayle Brett, Manager (202/452-2934), or Lisa Hoskins, Senior Financial Services Analyst (202/452-3437), Division of Reserve Bank Operations and Payment Systems. For information regarding the market needs for extended Fedwire operating hours, contact Patrick M. Parkinson, Assistant Director (202/452-3526) or Patricia White, Senior Economist (202/452-2912), Division of Research and Statistics. For the hearing impaired only: Telecommunications Device for the Deaf, Dorothea Thompson (202/452-3544).

SUPPLEMENTARY INFORMATION: In April 1990, the Federal Reserve adopted uniform operating hours for the Fedwire funds and securities transfer services, effective August 1, 1990. (55 FR 18755, May 4, 1990) An 8:30 a.m. Eastern Time (ET) opening time for the funds transfer and book-entry securities transfer services was established. The Board indicated that uniform operating hours would promote competitive equity among depository institutions and increase the efficiency of financial markets. The Board also noted that the continuing evolution of the payments system and financial markets might lead to further changes in operating hours, such as opening Fedwire earlier in the day.

The Board believes that expansion of Fedwire operating hours would facilitate interbank and bank customer settlements, domestically and possibly internationally. It believes that this expansion of Fedwire hours should be undertaken incrementally, with each expansion being evaluated on its own merits.

Proposed 6:30 a.m. ET Opening Time for the Fedwire Funds Transfer Service

The Board requests comment on a proposal for an initial expansion of Fedwire operating hours by changing the opening time for the Fedwire funds transfer service from 8:30 a.m. ET to 6:30 a.m. ET, effective October 4, 1993. Domestic markets could potentially benefit from an earlier opening of Fedwire in at least two ways. First, futures clearing organizations could improve the timeliness and finality of their settlements. Second, one obstacle to an earlier daily money settlement in the options markets and, ultimately, to the harmonization of the timing of settlements across the futures and options markets would be eliminated. Recommendations have been made to improve finality and lower the volume of payment associated with settlements of transactions in these markets in forums, such as the Working Group on

Financial Markets, and in studies by regulatory agencies of periods of stock market volatility.¹ The benefits of expanding Fedwire hours thus complement efforts to enhance the safety and efficiency of settlements for financial instructions and thereby reduce risks that arise in this process. In fact, the Federal Reserve has opened Fedwire early on certain days of financial market stress.

The Working Group report highlighted the linkage between the payments system and the settlement of securities and derivative instruments. A function of clearing organizations is to manage risk, especially the risk of nonperformance by a member on its obligation. In managing this risk, these organizations require a reliable mechanism for transferring funds between themselves and their clearing members. The Chicago Mercantile Exchange and the Board of Trade Clearing Corporation, for example, currently settle transactions by 7:40 a.m. ET on the business day following a trade. These clearing entities believe that settlement prior to the opening of the next day's trading (at 8:20 a.m. ET) is an integral part of risk-management systems that ensure the integrity of their markets. In order to complete settlement, which is before the opening of Fedwire, settlement banks make commitments to the clearing organizations guaranteeing the obligations of market participants. While these commitments provide strong assurances to clearing organizations and their participants that settlement will be completed, opening Fedwire at 6:30 a.m. ET would permit final and irrevocable settlement by 7:40 a.m. ET.

This benefit of earlier operating hours would likely be realized immediately. Expansion of Fedwire operating hours was recently recommended by the Regulatory Coordination Advisory Committee of the Commodity Futures

Trading Commission, and the Commission forwarded that recommendation to the Board.² Further, support for such a step has been expressed by several market participants, futures clearing houses, and settlement banks.

An earlier opening of Fedwire also would remove an important obstacle to an earlier daily money settlement for exchange-traded options. The Options Clearing Corporation (OCC), which clears all exchange-traded options contracts in the United States, currently conducts money settlements using Fedwire funds transfers.³ If Fedwire were open as early as 6:30 a.m. ET and if the OCC's settlement banks made their facilities available sufficiently early, the OCC could complete its daily money settlement of the previous day's trades prior to the opening of trading in the most actively traded options contracts. As the Securities and Exchange Commission has noted, a pre-opening settlement may add certainty to the clearance and settlement process of the OCC and thereby strengthen investor confidence in the integrity of U.S. securities and options markets.⁴ A pre-opening settlement at the OCC would also constitute a step in the direction of harmonizing the timing of settlements in U.S. futures and options markets, which was recommended by the Working Group on Financial Markets. However, the OCC has indicated to the staff that an earlier money settlement may not be desirable, even if Fedwire were open at 6:30 a.m. ET. In part, there is concern that its non-Chicago settlement banks would be unable to meet an earlier settlement deadline. There are also concerns that an earlier settlement would increase the OCC's risk of loss on the settlement of foreign exchange options exercises and assignments.

The proposed expanded operating hours would apply only to the origination of on-line Fedwire funds transfers (i.e., transfers sent via electronic transmission to the Federal Reserve). The proposal would not affect the current hours for originating off-line transfers. Off-line institutions and institutions that do not open for the purpose of originating funds transfers

would continue to receive credit for funds transfers received to their reserve accounts; however, the Reserve Banks would not provide advices to off-line institutions of the receipt of funds transfers prior to the opening of the off-line service.

The Board requests comment on the extent to which depository institutions and their customers would incur significant additional costs if the Fedwire funds transfer opening time were changed to 6:30 a.m. ET. The Board anticipates that relatively few institutions will have a business need to open their Fedwire operations earlier than they do today. For those institutions that choose not to open their Fedwire operations earlier in the morning, the Board believes that there would be no real resource or financial cost of an earlier Fedwire opening hour.

Those institutions that choose to open their operations earlier in the day in response to an earlier Fedwire opening time may experience increased costs. The Board anticipates that institutions that act as settlement banks for the futures markets and banks that hold accounts of the clearing members may choose to open early in order to fulfill their payment obligations, and/or provide or obtain funding to cover futures settlement obligations. The settlement banks, however, may already have the necessary credit and operational staff available in the early morning hours prior to the current opening of Fedwire. To the extent that existing staff and resources can accommodate an early opening of Fedwire, cost increases for these institutions would likely be minimal.

The increase in Reserve Bank costs resulting from a 6:30 a.m. ET opening time for the origination of on-line funds transfers would be small relative to the total costs of providing the funds transfer service. The incremental costs for additional staff and computer resources are minimal for a two-hour expansion of the Fedwire funds transfer operating day. Therefore, the Federal Reserve's price for a Fedwire funds transfer should not be materially affected by the expanded operating hours.

Fedwire Securities Transfer Service Opening Time

The Board requests comment on whether the book-entry securities transfer service opening time for on-line and off-line operations should be moved to 6:30 a.m. ET, if the funds transfer service opening time is moved to 6:30

¹ The Working Group on Financial Markets was formed by the President after the 1987 stock-market break and comprises the Secretary of the Treasury and the chairmen of the Federal Reserve Board, Commodity Futures Trading Commission, and Securities and Exchange Commission. A portion of its 1988 Interim Report of the Working Group on Financial Markets deals with clearing and settlement issues, as did reports on the 1987 stock-market break: The Commodity Futures Trading Commission, Follow-up Report on Financial Oversight of Stock Index Futures Markets During October 1987, January 6, 1988; U.S. Securities and Exchange Commission, The October 1987 Market Break, February 1988. A subsequent report by the Securities and Exchange Commission on the events of October 1989 also noted the relationship between banking facilities and settlement practices, U.S. Securities and Exchange Commission, Market Analysis of October 13 and 16, 1989, December 1990.

² The Advisory Committee consists primarily of futures commission merchants and their customers.

³ Banks providing credit to OCC clearing members must notify the OCC by 9:45 a.m. ET that funds will be transferred. Funds are moved to OCC accounts at 10 a.m. and paid out by 11 a.m. The clearing organizations for the New York futures exchanges also settle with funds transfers after the opening of Fedwire.

⁴ See letter to Wayne P. Luthringshausen, Chairman of the Board and Chief Executive Officer, OCC, from William Heyman, Director, Division of Trading and Markets, February 13, 1992.

a.m. ET.⁵ In particular, the Board requests comment on the benefits of an earlier opening of the securities transfer service to financial market participants.

The availability of the Fedwire funds transfer service earlier in the day would likely change existing payment practices in financial markets. In the futures markets, where credit is currently extended on an unsecured (or partially secured) basis in the morning, banks may require funding of obligations at the morning settlement time. The ability to deliver securities in the early morning hours may be an important source of such funding. If the securities transfer service were open, market participants might be able to liquidate overnight investments, including reverse repurchase agreements (repos), or complete outright sales. Alternatively, collateral could be repositioned to secure extensions of credit or to deliver directly to clearing organizations to cover deficits in the original margin accounts.⁶

Opening the securities transfer service earlier, and thus permitting the earlier return of collateral and delivery of other securities transfers, would result in debits to the reserve/clearing accounts of the depository institutions receiving

these securities transfers over Fedwire. With respect to the earlier return of collateral, the Board believes that the institutions to which the collateral is returned may often be the banks that clear Government securities on behalf of dealer-customers that regularly finance large inventories of Government securities overnight. The intraday financing practices of Government securities dealers are such that the clearing banks incur daylight overdrafts in their Federal Reserve accounts throughout the day, beginning in the morning with the return of repo collateral. An earlier opening of the book-entry securities service would thus lengthen the period during which the clearing banks may be in overdraft due to securities transfers. However, given the Board's action to charge for daylight overdrafts, banks, dealers, and others may attempt to control and/or shift costs associated with such overdrafts through operational and market adjustments.

The Board requests comment on the need to provide off-line book-entry securities services in the early morning hours, if the securities service opening time were moved to 6:30 a.m. ET. The Board recognizes that, if the Reserve Banks were to open the book-entry securities transfer service at 6:30 a.m. ET for both on-line and off-line securities transfers, the costs incurred by both the Reserve Banks and off-line depository institutions would increase. The incremental costs that would be incurred by the Reserve Banks would be attributable primarily to staffing for off-line transfer operations. While these costs are expected to be small relative to the total costs of the book-entry securities transfer service, the added personnel costs may result in increased Federal Reserve fees.

Conversely, if the Reserve Banks were to open only for on-line book-entry securities transfer services at 6:30 a.m. ET, institutions that access these services off-line would not be able to originate securities transfers any earlier than they can today. Incoming securities received in the early morning, however, would be automatically deposited to the receiving institution's securities account and its reserve/clearing account would be debited accordingly, regardless of whether the receiver had on-line or off-line access. In both cases, the receipt of income securities might result in daylight overdrafts in the accounts of receiving institutions and these overdrafts might be subject to Federal Reserve charges.

The Board also requests comment on the types of operational features that

may be required if it adopts an earlier opening time for securities transfers. The Board recognizes that depository institutions that do not have a business need to participate in the early morning book-entry securities transfer service may want to have the capability to control or prevent the receipt of incoming transfers during the early morning hours. In the near term, however, the Federal Reserve's book-entry securities transfer systems will not be able to allow depository institutions to elect whether or not to participate during the early hours.

Against this background, the Board requests comment on the specific benefits that depository institutions would realize if the book-entry securities transfer service was opened at 6:30 a.m. ET. The Board also requests comment on the specific effects on depository institutions if the Federal Reserve Banks' off-line securities operations were not available in the early morning hours. Finally, the Board requests comment on the extent to which depository institutions and their customers would incur incremental costs if the securities transfer opening time were moved to 6:30 a.m. ET. In particular, the Board requests comment on the extent to which institutions that choose not to open their operations earlier may incur daylight overdraft charges due to the receipt of securities transfers (delivered against payment) that exceed the institutions' opening-of-business balances.

Further Expansion of Fedwire Operating Hours

The Board also requests comment on further expansion of Fedwire operating hours in the future as market needs develop, by opening Fedwire funds transfer services earlier than 6:30 a.m. ET and/or closing for Fedwire funds transfers later than the current 6:30 p.m. ET close. For example, further expansion of Fedwire funds transfer operating hours by opening earlier than 6:30 a.m. ET could facilitate efforts to control temporal risk associated with the settlement of cross-border and multi-currency transactions, such as foreign exchange transactions, while closing later than 6:30 p.m. ET could accommodate domestic market needs in western U.S. time zones.

Central banks have long been interested in mechanisms for reducing the settlement risks in the foreign exchange markets. In such settlements, for example, an entity is often exposed to the risk that it will pay out foreign currency early in the day in a foreign financial center and not receive a dollar

⁵ When the Board issued a proposal to establish uniform Fedwire operating hours (54 FR 41681, October 11, 1989), it requested comment on whether both the funds transfer and the book-entry securities transfer services should open at the same time, or whether the book-entry securities transfer service opening time should be later than that for the funds transfer service. The majority of commenters that addressed the question in the context of that proposal supported the same opening time for the funds transfer and book-entry securities transfer services.

Some commenters to the Board's proposal to establish posting procedures for measuring daylight overdrafts (56 FR 3098, January 28, 1991) expressed concern that they are unable to control the timing of incoming securities transfers, and thus would not be able to control their securities-related daylight overdrafts in a pricing environment. These commenters suggested several means to control securities-related overdrafts, including delaying the opening of the book-entry securities transfer service to allow institutional time to fund their accounts before incoming securities are delivered. Commenters suggested opening times ranging from 45 minutes to 3 hours after the opening of the funds transfer service.

⁶ Under the current procedures, a clearing member with a deficit in its original margin account must provide cash to cover that deficit at the morning settlement. These funds transfers occur even though clearing members likely substitute other collateral, such as Treasury securities, later in the day. The ability to move collateral earlier in the morning would enable the direct posting of collateral to cover these obligations, and thereby reduce this portion of each morning's cash payments.

The Options Clearing Corporation also requests its settlement banks to debit clearing member accounts for cash to cover deficits at its morning settlement. Any interbank transfers involved occur after the opening of the securities and funds transfer services.

counter-payment later in the day.⁷ These risks are known as "Herstatt" risks after the 1974 failure of Bankhaus Herstatt, which resulted in significant disruption to settlement practices in place at that time.

An extension of Fedwire funds transfer operating hours would expand the current overlap (or reduce the current time gaps) between payments systems for the U.S. dollar and other currencies. This would remove at least one technical barrier faced by the private sector when coordinating settlements in multiple currencies. At least in the near term, however, other barriers could remain. These include the inability to make real-time, final credit transfers in some currencies, as well as possible structural impediments to the development of deep and liquid money markets outside regular business hours. The Board requests comment on how a further expansion of Fedwire operating hours could facilitate the development of private-sector arrangements to reduce the risks in settling cross-border and multi-currency transactions. The Board also requests comment on what other changes would be needed in the United States or even internationally to support the development of these arrangements.

Some west coast depository institutions have indicated that the current 6:30 p.m. ET Fedwire funds transfer close occurs too early in their business day, and that later operating hours would facilitate payments by west coast institutions and their customers. The Board requests comment on the benefits of lengthening the Fedwire funds transfer business day by closing later than 6:30 p.m. ET and on the costs and operational effects a later closing time would have on institutions and their customers both on the west coast and in other areas of the country.

In summary, the Board requests comments on the costs and benefits to institutions and to the financial markets of further expansions of Fedwire operating hours. The Board recognizes that expansion of Fedwire operating hours may eventually result in some operating difficulties for institutions, as the time between the close of Fedwire on one day and the opening of Fedwire on the following day becomes compressed, resulting in less time for institutions to complete their customer

account updates.⁸ The reduction in hours between the close of Fedwire on one day and the opening of Fedwire on the following day would also reduce the time available for institutions to recover from a major operational outage.

Effect of Expanded Fedwire Operating Hours on Daylight Overdraft Measurement and Pricing

Expansion of Fedwire operating hours raises several issues related to the pricing of daylight overdrafts and the timing of the posting of nonwire transactions. The Board recently adopted a policy to charge a fee for the daily average value of daylight overdrafts in a depository institution's account. The Board also modified the method used to calculate an institution's intraday account balance. (See Docket R-0721 elsewhere in today's Federal Register.)

In its action, the Board indicated that the value of daily average daylight overdrafts would be calculated by dividing the sum of a depository institution's negative account balances at each one minute interval during the official Fedwire funds transfer day by the number of minutes in that day. If the official Fedwire funds transfer service hours were increased, the divisor in the equation would be increased. For example, if the scheduled opening of Fedwire were moved to 6:30 a.m. ET, the divisor would change from 600 minutes to 720 minutes. The board adopted a daylight overdraft fee equal to 60 basis points for a 24-hour day. This fee would be adjusted to reflect the number of hours the Fedwire funds transfer service is scheduled to operate. For example, the Board has adopted a phased-in annual rate of 25 basis points for a ten-hour day (60 basis points \times 10/24). For a 12-hour operating day, the charge would be 30 basis points (60 basis points \times 12/24).

⁸ In determining the minimum amount of time institutions require between the close of one Fedwire business day and the start of the next Fedwire business day, the effect of Fedwire extensions should be taken into consideration. Today, the Federal Reserve Banks extend the scheduled Fedwire funds transfer closing time approximately four times per month at the request of depository institutions to accommodate needs to send funds transfers late in the day. The majority of these extensions are due to temporary operating problems. Occasionally, extensions are made to accommodate heavy trading in times of market stress. While the majority of these extensions are for less than one hour, extensions have been granted in excess of four hours in extreme circumstances. If the Board were to expand the Fedwire funds transfer operating hours further in the future, periodic extensions of the scheduled Fedwire closing time could result in greater operating difficulties, such as compressed account posting timeframes, for some institutions.

The methodology for measuring intraday balances in accounts at the Federal Reserve would remain unchanged if the Federal Reserve adopts a 6:30 a.m. ET Fedwire opening time. Specifically, nonwire transactions that would be posted at the opening of business would continue to be posted at the scheduled opening of the Fedwire funds transfer service, which would be 6:30 a.m. ET under this proposal. There would be no change in the posting times for other transactions.

Request for Comment

The Board requests comment on its proposal to open the Fedwire funds transfer service at 6:30 a.m. ET and on the benefits and costs of an earlier opening of the securities transfer service and on further extensions of Fedwire operating hours in the future as market needs warrant. Specifically, the Board requests comments on the following:

Proposed 6:30 a.m. ET Funds Transfer Service Opening Time

1. Should the opening time for the Fedwire funds transfer service be moved to 6:30 a.m. ET?
2. Do the commenters concur with the benefits described above for opening the Fedwire funds transfer service at 6:30 a.m. ET? Are there benefits beyond those identified in this notice to expand Fedwire funds transfer operating hours at this time?
3. Would the futures and other clearing organizations seek to change their settlement procedures to require their settlement banks to settle by final payments (i.e., Fedwire funds transfers) at their current morning settlement time if the Fedwire funds transfer service were open at 6:30 a.m. ET?
4. If the Federal Reserve moved the Fedwire funds transfer opening time to 6:30 a.m. ET, would the settlement banks for the futures and other clearing organizations modify their settlement agreements to provide for settlement by final payments at or before their current morning settlement time? Would the settlement banks for futures or other clearing arrangements require clearing members to fund their accounts at the settlement banks prior to an early morning settlement time routinely, or only when volatile markets create unusually large payment obligations?
5. Do commenters envision any near term use of the Fedwire funds transfer service, directly or indirectly, to control Herstatt-type risk?
6. What would be the incremental costs for depository institutions and their customers to open the Fedwire funds transfer service at 6:30 a.m. ET?

⁷ Today, dollar payments made to settle foreign exchange transactions are often settled over the Clearing House Interbank Payments System (CHIPS), which is operated by the New York Clearing House and which settles at the end of the day through an account at the Federal Reserve Bank of New York, using Fedwire.

Please identify the types of costs involved (i.e., personnel, automation resources, etc.). Would institutions' customer accounting systems be affected?

7. If the Board were to adopt a 6:30 a.m. ET Fedwire funds transfer opening time in early 1993, would October 4, 1993 be a reasonable effective date?

Fedwire Securities Transfer Service Opening Time

8. Should the book-entry securities transfer service be opened at 6:30 a.m. ET, if the Fedwire funds transfer service opening is moved to 6:30 a.m. ET? If the securities service opening time is moved to 6:30 a.m. ET, is it necessary to provide off-line securities services during the early morning hours?

9. If the futures exchange settlement banks were to require clearing members to fund their accounts prior to the early morning settlement, to what extent would the book-entry securities transfer system need to be open to allow the clearing members to obtain the necessary funding? To what extent would clearing members fund their obligations through their opening-of-business balances, through the use of daylight overdrafts, or by obtaining funding in the money markets? Would the early opening of Fedwire lead to the development of early morning money markets? [See also Q. 18, regarding the development of money markets.]

10. What other benefits would depository institutions and/or their customers realize if the securities transfer service were opened at 6:30 a.m.?

11. What would be the incremental costs for depository institutions and their customers to open the Fedwire book-entry securities transfer service at 6:30 a.m. ET for on-line service only? For on-line and off-line services? Please identify the types of costs involved (i.e., personnel, automation resources, increased Federal Reserve daylight overdraft charges, etc.).

12. What would be the effect on institutions' intraday management of their reserve accounts of a 6:30 a.m. ET opening of the book-entry securities transfer service? To what extent would institutions incur early morning daylight overdrafts due to the receipt of securities transfers? To what extent might this be exacerbated for off-line institutions if they are unable to reverse incoming securities in the early morning hours? Would institutions or their customers generally be able to agree with the sender of the securities on the intraday timing of transfers in order to minimize or eliminate early morning overdrafts?

13. What kinds of controls, if any, would receivers of securities need to have available if the securities transfer service opened earlier in the day? Would these controls best be provided by the Federal Reserve in the Fedwire securities transfer service or otherwise? What effect might the use of receiver controls have on market behavior and efficiency? Are there other capabilities that depository institutions would require in a future Federal Reserve book-entry securities transfer system if the securities transfer opening time is moved to 6:30 a.m. ET?

14. Under the posting rules recently adopted by the Board, the Federal Reserve would post U.S. Treasury and Government Agency interest and redemption payments by 9:15 a.m. ET and deliver Treasury original issues to depository institutions beginning at 9:15 a.m. ET. Operationally, the Reserve Banks would begin releasing interest and redemption payments at the current opening time; this process should be completed prior to delivery of original issues, which would begin 45 minutes later. If the Board were to adopt a 6:30 a.m. ET opening time, would there be a need to adjust the time by which interest and redemption payments should be delivered and the corresponding time to begin delivery of original issues of Treasury securities? If so, what time would be appropriate?

15. If the Board were to adopt a 6:30 a.m. ET opening time for the Fedwire securities transfer service in early 1993, would October 4, 1993 be a reasonable effective date?

Further Expansion of Fedwire Operating hours

16. How might a further expansion of Fedwire operating hours affect the opportunities for the private sector to reduce significantly the risks of cross-border and multi-currency settlements? In particular, would it facilitate the development of a true delivery-versus-payment mechanism for foreign exchange, one in which there is assurance that the transfer of a foreign currency occurs if and only if a transfer of dollars occurs? In addressing this question, please discuss why, given the current overlap of payments system hours in the U.S. and the major European countries, such a mechanism does not exist for those currencies.

17. How early or late would Fedwire hours have to be expanded with respect to each identified market need? For example, how early would Fedwire have to open in order to create a useful overlap of payment hours between Asian, European, and U.S. time zones? Would payments systems in other

countries need to be expanded as well? What other changes would be needed in the United States or internationally?

18. Are there significant structural impediments to the development of money markets with sufficient depth and liquidity in the U.S. or to the expansion of trading for same-day settlement in foreign financial centers to support, for example, settlement-related funding transactions during expanded hours?

19. Are there benefits to lengthening the Fedwire business day by closing later than today's normal closing times for book-entry securities and funds transfer? Please discuss the market needs for a later Fedwire closing time.

20. What would be the costs and operational effects of further expansion of Fedwire operating hours to depository institutions, their customers, and the financial markets? (Please discuss in the context of a scenario in which Fedwire opens significantly earlier than 6:30 a.m. ET and/or closes later than 6:30 p.m. ET.)

21. How would further expansion of Fedwire operating hours affect institutions' general ledger and customer accounting systems? Specifically, how much time would be needed in the future from the close of Fedwire to the completion of the posting of customer accounts for that day? Is there a minimum period of time required between the close of Fedwire and the opening of Fedwire on the next business day to complete customer account updates?

22. How would a further expansion of Fedwire operating hours affect institutions' ability to recover in a timely manner from a major operational outage?

23. What other effects on financial institutions' operations or on financial markets should be taken into account when considering further expansion of Fedwire operating hours?

By order of the Board of Governors of the Federal Reserve System, October 6, 1992.

William W. Wiles,

Secretary of the Board.

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