

Banking and Finance Law Daily Wrap Up, CHECKS AND ELECTRONIC TRANSFERS—Fed seeks comment on expanding payment services to weekends and holidays, (May 6, 2024)

Banking and Finance Law Daily Wrap Up

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By Steven Melendez

The Federal Reserve has proposed running Fedwire Funds Service and the National Settlement Service 365 days per year. Currently, the two services are closed for weekends and holidays.

The Federal Reserve Board is formally [seeking](#) comment on a [proposal](#) to expand the Fed's two payment services—Fedwire Funds Service and the National Settlement Service—to run 365 days per year. Comments on the proposal are due 60 days after publication in the *Federal Register*.

"The Federal Reserve has consistently improved its payment services to meet the evolving needs of the U.S. economy," according to the Fed. "As technological advancements and globalization of commerce continue to drive change in the large-value payment landscape, the Board believes that expanding the availability of the Fedwire Funds Service and NSS 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."

Under the proposal, the Fedwire Funds Service, which is used for electronic funds transfers up to \$10 billion, and the National Settlement Services, which lets banks and other participants in private clearinghouses settle transactions by crediting and debiting their respective Federal Reserve accounts, would be open year round, though they'd still close daily between 7 and 9 PM Eastern Time. Industry stakeholders suggested operating 24 hours per day could also make sense eventually, but in the meantime it could be difficult to operate with no downtime to allow for technological changes, according to the Fed. "If the Board does propose to expand operating hours further to 24x7x365, it would seek public comment in a separate proposal," the Fed said.

The changes wouldn't come immediately: Banks are already in the process of handling technical changes in the Fedwire Funds Service's messaging format, slated to be implemented for March 2025. The Federal Reserve estimates it would be difficult to implement daily operation sooner than two years after that, meaning the change in hours wouldn't come until at least 2027.

The Fed suggests the expanded hours could help payments flow more efficiently and reduce risk in the banking system, since there will be less time between when payment obligations are created and when they're resolved. The change would also mean fewer hours where payment systems abroad are operating and the Fed's systems are not, which could make it easier to settle international transactions involving funds transfers in multiple countries.

Still, the change wouldn't come without cost and risk, and the Fed is seeking comment to understand the exact ramifications. Some institutions might have to upgrade technology or ramp up staffing to handle daily operation, adding to their own costs. The Fed anticipates Federal Reserve Banks themselves would make up for their own costs, including through increased volume.

Additionally, "transferring funds to meet potential rapid deposit outflows during weekends and holidays could exacerbate liquidity issues for a bank in crisis," according to the Fed. The Fed is also requesting comment on whether it should extend the hours of its discount window—which provides short term lending to banks—to address liquidity risks. Other risks could come from effectively expanding hours where financial institutions are vulnerable to cyber attacks and other disruptions.

"The proposal seeks feedback on all aspects of the proposal, including the benefits and potential costs and risks," the Fed said.

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