FEDERAL RESERVE SYSTEM

[Docket R–1014]

Federal Reserve Bank Services

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Request for comment.

SUMMARY: The Board is requesting comment on whether the last fifteen minutes of the Fedwire funds transfer operating day, from 6:15 p.m. to 6:30 p.m. Eastern Time, should be restricted to funds transfers sent and received by banks for their own account in order to facilitate banks' end-of-day management of their Federal Reserve accounts.

DATES: Comments must be submitted on or before August 12, 1998.

ADDRESSES: Comments, which should refer to Docket No. R–1014, may be mailed to Ms. Jennifer J. Johnson, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, D.C. 20551. Comments addressed to Ms. Johnson 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, N.W. Comments may be inspected in room MP–500 between 9:00 a.m. and 5:00 p.m., except as provided in Section 261.8 of the Board's Rules Regarding the Availability of Information, 12 CFR 261.8.

FOR FURTHER INFORMATION CONTACT: Louise Roseman, Associate Director (202/425–2789), Jeff Stehm, Manager (202/452–2217), or Gina Sellitto, Financial Services Analyst (202/728–5848), Division of Reserve Bank Operations and Payment Systems. For the hearing impaired *only:* Telecommunications Device for the Deaf, Diane Jenkins (202/452–3544).

SUPPLEMENTARY INFORMATION: The Fedwire funds transfer system operates from 12:30 a.m. to 6:30 p.m. Eastern Time (all times stated are Eastern Time), with the last half hour of the operating day reserved for settlement transfers.[1] Settlement transfers are typically used by banks to adjust their Federal Reserve account positions, as well as their account positions at correspondent banks. Settlement transfers may be two-party transfers sent and received by banks for their own account, or they may contain third-party respondent bank information when a respondent bank is the originator and/or beneficiary of the payment order.[2] To the extent that Fedwire settlement transfers are received or requested unexpectedly just before the final close of Fedwire, a bank's ability to manage its reserve position and end-of-day Federal Reserve account position may be complicated. In particular, last minute transfers received during the settlement period for credit to a respondent bank customer may not be anticipated and cannot be controlled by the receiving correspondent bank.

In response to the Board's request for comment on a return to a system of lagged reserve requirements (62 FR 60671, November 12, 1997), the New York Clearing House Association (NYCHA) requested that the Board reconsider a two-part settlement period at the end of the Fedwire operating day, in which the last fifteen minutes of the Fedwire funds transfer operating day are reserved exclusively for transfers sent by and received for a bank's own account. Under this proposed restriction, funds transfers sent by banks on behalf of a respondent bank or funds transfers received by banks for credit to a respondent bank would be prohibited during the last fifteen minutes of the Fedwire day. NYCHA believes such a restriction would facilitate reserve management by allowing banks to anticipate more fully last minute payment flows from and into their account at a Reserve Bank. In particular, NYCHA believes that because respondent banks are able to use the entire Fedwire settlement period (6:00 p.m. to 6:30 p.m.) to move funds into and out of accounts at their correspondents, the correspondents cannot know their reserve positions with certainty until Fedwire has closed.[3] This uncertainty in late-day funds movements adds to the difficulty of reserve management for large money center correspondents.

In October 1989, the Board requested comment on a similar proposal to segment the settlement period for the Fedwire funds transfer service (54 FR 41681, October 11, 1989). Overall, commenters were divided as to the benefits of this earlier proposal. Several commenters indicated that there were no significant benefits to a segmented settlement period and that restricting receipt of transfers by affiliates and respondent banks during the last fifteen minutes would further impede their ability to manage their accounts. Other commenters believed that a segmented settlement period would unnecessarily complicate the processing of funds transfers because new edit criteria and type codes might be needed to monitor and restrict respondent transfers, requiring changes to programs and operating procedures for both banks and Reserve Banks. Commenters supporting this proposal noted that, in contrast to transfers sent or received on its own behalf, a correspondent bank may not be able to predict accurately transfers involving its respondent accounts, thereby complicating management of its reserve position.

At that time, the Board did not adopt a segmented settlement period given the concerns expressed by commenters and the lack of strong industry support (55 FR 18755, May 4, 1990). The Board, however, indicated that it would monitor developments with regard to reserve account management and determine whether segmenting the settlement period should be reconsidered at a later date.

NYCHA, in its February 5, 1998, letter to the Board, argues that several developments have occurred since 1990 that make it more difficult for banks to manage their reserve positions. These developments include: (1) a significant reduction in reserve balances resulting from reductions in reserve requirements in 1990 and 1992 and the use of sweep accounts starting in 1994; and (2) a reduction in the pool of available buyers of federal funds due to consolidation in the banking industry. The unexpected receipt of funds for a respondent bank very late in the day could result in the correspondent bank having more reserves than planned, which may be difficult to invest late in the day. Likewise, a late-in-the-day request to pay out funds on behalf of a respondent bank may result in a reserve deficiency at the correspondent bank that may be costly and difficult for the correspondent to fund. NYCHA argues that unanticipated excess or deficit reserve positions create uncertainty and volatility in the federal funds market. NYCHA believes that a segmented

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[1] A settlement transfer is a payment order in which the originator and the beneficiary are each either: (i) a bank subject to Federal Reserve reserve requirements (whether or not it actually maintains reserve balances), or (ii) a participant in a net settlement arrangement approved by a Reserve Bank as an eligible originator or beneficiary of a settlement payment order sent during the settlement period. A settlement transfer sent during the settlement period must be designated by type code 16. For purposes of this notice, the term ''bank'' is used to refer to any depository institution.

[2] For purposes of this notice, respondent transfers are defined as Fedwire transfers in which there is an intermediary bank between the originating bank and the Federal Reserve or between the beneficiary's bank and the Federal Reserve.

[3] NYCHA members have indicated that their concerns relate primarily to late-in-the-day transfers on behalf of foreign respondent banks, and that transfers on behalf of domestic respondent banks are generally not performed after 6:15 p.m.

Fedwire funds transfer settlement period would allow each bank to calculate its reserve position with greater precision and facilitate a more efficient interbank funding market.

If a segmented settlement period were adopted, it might be implemented through one of several approaches. Under one approach, if a bank received an unanticipated respondent transfer after 6:15 p.m., it could return the funds the same day. If this was not possible prior to the final close of Fedwire, it could return the funds the next day and request compensation from the sender (if the sender and receiver had a compensation agreement) and/or request that the Federal Reserve function an as-of adjustment to its reserve position and the reserve position of the sending bank.[4] [5] As-of adjustments may not have value for some receiving banks or provide a disincentive to some sending banks. In particular, a receiving bank with low reserve requirements that maintains balances at a Reserve Bank primarily for payment clearing purposes would likely receive little economic value from an as-of adjustment. Likewise, a sending bank with a low reserve requirement may not consider an as-of adjustment to be a sufficient incentive to stop sending respondent transfers after 6:15 p.m. Alternatively, compensation for respondent transfers processed after a 6:15 p.m. deadline might be handled by private agreement between the sending and receiving banks. For example, NYCHA has rules governing the settlement of claims for compensation between NYCHA member banks that arise from interbank funds payments.

Under another approach, the Fedwire funds transfer system might be modified to incorporate new edit criteria to detect and reject type code 16 funds transfers received after 6:15 p.m. that contain respondent information in the beneficiary or originator message field tags. Alternatively, a new funds transfer message type code to identify two-party bank-to-bank transfers could be established by modifying the Fedwire funds transfer system. If a transfer received after the respondent transfer cut-off time (6:15 p.m.) did not bear the appropriate type code, it would be rejected by the Fedwire funds transfer system. This approach would likely require changes to banks' internal systems in order to process a new message type code and may require significant modifications to the Fedwire funds transfer system.

If a segmented settlement period is desirable, Fedwire restrictions on respondent transfers sent after 6:15 p.m. may only need to be applied to transfers sent by the Federal Reserve to a bank for credit to its respondent bank's account. Correspondent banks could set their own cutoff times for originating transfers on behalf of a respondent bank customer, but they are unable to set similar controls over the receipt of transfers for the benefit of their respondent customers. The receipt of transfers for the benefit of a respondent bank customer, therefore, may require Fedwire restrictions to assist the receiving correspondent bank in managing its reserve position toward the end of the day.

If a segmented settlement period were adopted, the Board proposes that the Reserve Banks' procedures for granting an extension of Fedwire deadlines be modified in order to preserve a thirty-minute settlement period at the end of the Fedwire day, divided into two fifteen-minute intervals—the first period for all types of settlement transfers and the second period exclusively for settlement transfers sent and received for banks' own accounts. Today, extensions of the third-party customer transfer deadline past 6:00 p.m. generally result in a fifteen-minute, rather than thirty-minute, settlement period. For example, of the fifty-six extensions of the 6:00 p.m. third-party customer deadline in 1997, fifty resulted in a compressed fifteen-minute settlement period. If a segmented settlement period were adopted, any extension of the third-party deadline may require an extension of the final closing time in order to preserve a thirty minute settlement period at the end of the day—fifteen minutes for all settlement transfers and fifteen minutes exclusively for settlement transfers for banks' own accounts.

Finally, if a segmented settlement period were adopted, operational changes to banks' internal systems, and possibly to the Fedwire funds transfer system, may be required in order to preclude respondent transfers after 6:15 p.m. These potential system changes raise a question of the appropriate timing for implementation given the Reserve Banks' and banks' ongoing year 2000 readiness efforts and their desire to limit the number of system changes prior to the millennium cutover.

The Board requests comment on whether the establishment of a segmented settlement period at the end of the Fedwire operating day in which respondent transfers would not be permitted during the last fifteen minutes would enhance banks' ability to manage their reserve positions late in the day. The Board requests comment on the following questions:

1. What are the benefits of a 15-minute period from 6:15 p.m. to 6:30 p.m. during which respondent transfers would be prohibited? To whom would these benefits likely accrue? Are there any significant costs or other drawbacks to a segmented settlement period?

2. Because correspondent banks could manage unexpected outflows of funds over Fedwire by setting their own internal cut-off time for originating transfers on behalf of respondent bank customers, should the Federal Reserve impose restrictions only on settlement transfers where a respondent bank is the beneficiary bank?

3. How liquid is the fed funds market after 6:15 p.m.? Is the liquidity in the fed funds market at that time of day sufficient to allow the correspondent bank to invest any large inflows or cover any outflows of funds received over Fedwire late in the day?

4. How would restrictions on respondent banks' ability to request or receive Fedwire funds transfers late in the day affect their ability to manage their reserve position?

5. If the Board were to adopt a segmented settlement period, what responsibilities and/or penalties, if any, should be placed on the sending bank if it does not comply with the 6:15 p.m. deadline? Should the receiving bank have the ability to request an as-of adjustment with a corresponding adjustment to the sending bank if a respondent transfer is received after the 6:15 p.m. deadline? Will as-of adjustments provide sufficient incentive for the sending bank to police its release of respondent transfers after 6:15 p.m? Would there be a significant cost or drawback to the receiving bank if as-of adjustments were not functioned for these types of transactions?

6. Would it be preferable for the Federal Reserve to modify the Fedwire funds transfer system by implementing a new message type code or edit criteria to reject automatically transfers sent after the 6:15 p.m. that contain respondent bank information in the originator and/or beneficiary fields? What costs or other burdens would such

[4] As-of adjustments are adjustments made at the discretion of the Reserve Bank to the amount of calculated required reserves that sending and receiving banks must maintain during a two-week reserve maintenance period. As-of adjustments do not affect the actual level of balances held by a bank at its Reserve Bank, but rather the level of required reserves a bank must hold during a maintenance period.

[5] This is similar to the process used to compensate banks for third-party customer transfers sent after 6:00 p.m. as type code 16 messages. In this case, the Reserve Banks will function as-of adjustments to the sending and receiving banks when the receiving bank notifies the Reserve Bank of such a transfer. The use of as-of adjustments for this purpose, however, occurs infrequently.

operational modifications impose on Fedwire participants?

7. If the Fedwire 6:00 p.m. deadline for third-party customer transfers is extended on a particular day, should a thirty-minute settlement period be maintained at the end of the day, with the last fifteen minutes of the settlement period reserved for settlement transfers between banks for their own accounts?

8. If a segmented settlement period is approved, what is the appropriate timeframe for its implementation, given banks' ongoing year 2000 readiness efforts?

9. Are there any other alternatives that could be implemented to address this issue? For example, instead of Fedwire changes, could the originating bank and/or receiving bank implement internal controls, customer agreements, or other changes (e.g., industry agreements regarding a deadline for respondent transfers) to restrict respondent transfers toward the end of the Fedwire operating day?

By order of the Board of Governors of the Federal Reserve System, June 5, 1998.

Jennifer J. Johnson,

Secretary of the Board.

[FR Doc. 98–15407 Filed 6–9–98; 8:45 am]

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GENERAL SERVICES ADMINISTRATION

Office of the Chief Information Officer; Public Notice of Waiver of Federal Information Processing Standards

SUMMARY: Under the waiver authority granted by the Secretary of Commerce, The General Services Administration must make public all actions taken on waivers of Federal Information Processing Standards. The Administrator of the General Services Administration has granted the Agency a waiver to acquire and use any commercial-off-the-shelf product(s) which meet the Agency's requirement for information technology security. This notice serves to make this information public.

FOR FURTHER INFORMATION CONTACT: For further information on this notice, contact L. Diane Savoy, Acting Assistant Chief Information Officer, General Services Administration, Room 3024, 18th & F Street, NW, Washington, DC 20405; telephone (202) 219–3062.

SUPPLEMENTARY INFORMATION: The General Services Administration (GSA) requires secure electronic communication with private sector vendors to perform its day-to-day functions. The limited availability of products employing FIPS compliant security techniques produced many incompatibilities with the vendor community. To eliminate or reduce this problem, the GSA Chief Information Officer requested and was granted Agency-wide authority to use commercial-off-the-shelf products that employ techniques for assuring identity, authenticity, integrity, or confidentiality in addition to those employing techniques specified in the FIPS. The waiver granted by the GSA Administrator became effective on September 29, 1997 and remains in effect until July 31, 2002.

Dated: June 5, 1998.

Donald P. Heffernan,

Deputy Chief Information Officer.

[FR Doc. 98–15414 Filed 6–9–98; 8:45 am]

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DEPARTMENT OF HEALTH AND HUMAN SERVICES

Office of the Secretary

Management and Budget Office, Office of Information and Resources Management; Statement of Organization, Functions and Delegation of Authority

Part A, of the Office of the Secretary, Statement of Organization, Functions and Delegation of Authority for the Department of Health and Human Services is being amended at, Chapter AM, HHS Management and Budget Office, Chapter AMM, Office of Information Resources Management (OIRM), as last amended at 61 FR 37902 July 22, 1996. The changes are to reflect a realignment of functions within the Office of Information and Resources Management. The changes are as follows:

Delete in its entirety Chapter AMM, Office of Information and Resources Management and replace with the following.

Chapter AMM, Office of Information and Resources Management

AMM.00 Mission. The Office of Information Resources Management (OIRM) advises the Secretary and the Assistant Secretary for Management and Budget (ASMB)/Chief Information Officer (CIO) on information and information technologies to accomplish Departmental goals and program objectives; exercises delegated authorities and any other applicable rules; promotes improved management of Departmental information resources and technology; provides efficient and effective information and information technology service to clients and employees; and provides assistance and guidance for technology-supported business process reengineering, investment analysis, performance measurement, assurance of the information and system integrity, and strategic development and application of information systems, infrastructure, and policies to the Department and its components.

The Office is responsible for the overall quality of information resources and technology management throughout the Department; represents the Department to central management agencies (e.g., the Office of Management and Budget); supports the development of a robust information infrastructure (including a departmental information technology architecture and information technology-based services for the Office of the Secretary); and advocates rigorous methods for analyzing, selecting, developing, operating, and maintaining information systems.

The Office collaborates with the Operating and Staff Divisions of the Department to resolve policy and management issues, manages risks associated with major information systems, evaluates and approves major investments in information technology based on return on investment, and measures and evaluates system performance.

The Office exercises authorities delegated by the Secretary to the Assistant Secretary for Management and Budget, as the CIO for the Department. These authorities derive from the Information Technology Management Reform Act of 1996, the Paperwork Reduction Act of 1995, the Computer Matching and Privacy Act of 1988, the Computer Security Act of 1987, the National Archives and Records Administration Act of 1984, the Competition in Contracting Act of 1984, the Federal Records Act of 1950, OMB Circular A–130: Management of Federal Information Resources, and Government Printing and Binding Regulations issued by the Joint Committee on Printing.

Section AMM.10 Organization. The Office of Information Resources Management (OIRM), under the supervision of the Deputy Assistant Secretary for Information Resources Management/Deputy CIO, who reports to the Assistant Secretary for Management and Budget/CIO, consists of the following component.

- Immediate Office (AMMA)
- Office of Information Technology Policy (AMMJ)
- Office of Information Technology Services (AMML)