



Business/First Line of Defense Wholesale Product Office (WPO)

ORMIA, Central Banking Seminar

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Agenda

- Overview of Wholesale Product Office and Wholesale Services
- Fedwire[®] Services - Systemically Important Financial Market Infrastructures
- Wholesale Product Office - First Line of Defense

Wholesale Product Office

Responsible for the management, operation, support and development of Wholesale Services (Fedwire[®] Funds and Securities Services and National Settlement Service), including:

- developing new services
- service enhancements
- and pricing models
- ensuring the technology used to deliver the wholesale services is secure, resilient and satisfies business requirements

The Wholesale Product Office delivers these services to all Reserve Bank customers.

*Under the Federal Reserve Act, the Board of Governors exercises “general supervision” over the Federal Reserve Banks.

Wholesale Services Overview

Fedwire[®] Funds Service

- A real-time gross settlement system in which senders are able to initiate individual electronic funds transfers that are immediate, final and irrevocable.
- \$3.3 trillion in average daily transfer value and 556,000 average daily transfers (2015).

Fedwire[®] Securities Service

- A real-time securities transfer system in which senders are able to initiate individual transfers of securities free or against payment that are immediate, final and irrevocable.
- \$1.2 trillion in average daily transfer value and 69,000 average daily transfers (2015).

National Settlement Service

- A multilateral settlement system in which depository institutions can settle obligations for participants in private-sector clearing arrangements in batches; transactions are immediate, final and irrevocable.
- \$72 billion in average daily value among 37 settlement files.

- These services are provided on behalf of **all 12 Reserve Banks**.
- Plays critical role in the clearing and settlement of other systemically important financial market infrastructures.
- Infrastructure used by the Fed, as fiscal agent to the Treasury and others, to issue, redeem and pay P&I on securities.
- Infrastructure (Fedwire[®] Services) for the final settlement of most current monetary policy operations.

Fedwire® Services - Systemically Important Financial Market Infrastructures



Systemic Importance

- Fedwire® Services (Funds and Securities) and National Settlement Services are systemically important financial market infrastructures (FMIs) and central in supporting settlement for other systemically important private-sector FMIs

Increasing Oversight of Fedwire® Services

- Financial crisis focused attention on the significant risk FMIs pose to the financial system
- Under Title VIII of the Dodd-Frank Act of 2010, a private-sector FMI designated as systemically important is subject to a supervisory and enforcement regime similar to that of an insured depository institution

Principles for Financial Market Infrastructures (PFMI)

- Federal Reserve Board of Governors endorsed and uses revised international standards in its oversight of Fedwire® Services
- Board of Governors continuously monitors the Fedwire® Services and has stated in its policy that it is *committed to strong and effective supervision [of Fedwire® Services] that is comparable to, or exceeds, the requirements placed on similar private-sector payment and settlement arrangements*
- Revised standards require expanded and detailed evaluation of governance, risk management and operations

Wholesale Product Office (WPO) - First Line of Defense

The Bank's Risk Management Framework leverages the three-lines-of-defense model to establish **clear and comprehensive roles and responsibilities** for decision making, execution, escalation and oversight across organizational units and risk types based on a consistent set of principles.

First line of defense

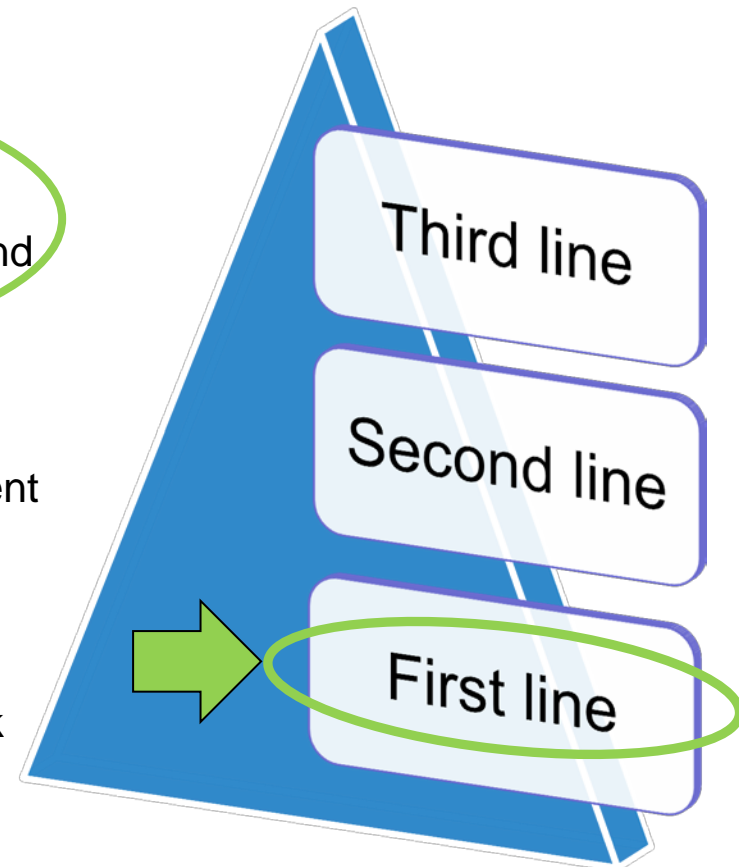
Executes the Bank's core mission in monetary policy, financial stability, and financial services and accountable for managing its risk.

Second line of defense

Provides integrated view, independent assessment and oversight of risks taken by the first line

Third line of defense

Provides assurance that first and second line risk management and control activities are effective



First Line of Defense

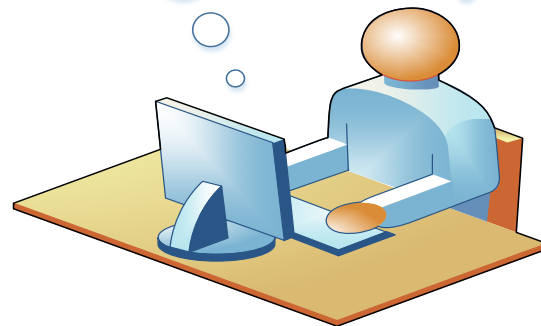
Integrating Risk into Decision Making

Daily business decisions pertaining to:

- Day-to-day operations
 - System monitoring
 - Issue resolution
 - Oversight of operating sites
- Business planning (strategic and tactical)
 - Customer needs
 - Resiliency of service offerings
 - Modernizing technology
- Product Development
- Project execution
 - Project management
 - Technical execution
- Financial aspects
 - Cost recovery
 - Budget

Additional factors to consider:

- Bank risk management practices
 - Risk tolerance
 - Risk management principles
- Laws and regulations
 - Legal and compliance risk
 - Principles of Financial Market Infrastructure (PFMI)
- Expectations of governing bodies and key stakeholders
 - Escalation, communication and reporting
 - Board of Governors
 - Bank Governance and Board of Directors
 - Federal Reserve System
- Other Bank policies



First Line of Defense

Risk Activities Performed within WPO

Wholesale Product Office (WPO) as first line of defense is accountable for risk identification, analysis, mitigation, reporting and monitoring across Wholesale Services

Type of Risk Activity	WPO Role/Responsibility
Identifying, analyzing, responding to, reporting and monitoring risk	Ensuring risks associated with Wholesale processes, people, and systems, and from external events, are identified and well-understood
Defining risk tolerance	Establishing a WPO risk tolerance level and managing Wholesale Services risks within these as well as the Bank's risk tolerance levels
Ensuring appropriate risk controls	Designing, implementing, operating and testing appropriate preventative controls supplemented by detective and corrective controls
Risk event root cause analysis	Understanding and addressing direct and underlying causes of risk events, including outsourced business activities
Risk-based decision making	Incorporating risk considerations into strategy setting, prioritization, and regular decision making
Risk management framework	Ensuring objective assessment, analysis, response, reporting and escalation of risks
Communicating and collaborating with the other lines of defense	Working closely with the 2nd line of defense areas (Enterprise Risk Oversight, Operational Risk Oversight, SOX Compliance and Compliance Function) and Internal Audit

First Line of Defense

Supporting Risk Activities Performed within WPO

Type of Risk Activity	WPO Role/Responsibility
Documenting processes to mitigate risk	Ensuring operational processes are appropriately documented (e.g., procedures, guidelines, business process flows, job aids, etc.)
Monitoring, reporting and escalating risk	Facilitating timely monitoring, reporting and escalation processes such that the Bank's senior management is aware of significant events and material changes to the Bank's operational risk profile
Managing and mitigating risk	Implementing action plans and maintaining internal controls to appropriately mitigate risk
Participating in Federal Reserve System risk groups	Contributing to and sharing best practices around risk management and best practices

First Line of Defense

Utilization of Bank resources

The **first line of defense** uses policies, processes and tools designed by the second line to evaluate its risk profile and to manage risk within its own and the Bank's risk tolerance.

Use of to Bank policies, processes and tools

- Performing Risk Control Self Assessments
- Recording risk events and determining root cause
- Managing risk tolerance around daily business decision making

PFMI Disclosure Links

- Fedwire Funds Service

<https://www.frbservices.org/files/serviceofferings/pdf/fedwire-funds-service-disclosure.pdf>

- Fedwire Securities Service

<https://www.frbservices.org/files/serviceofferings/pdf/fedwire-securities-service-disclosure.pdf>

Questions?