

Best Practices for Mitigating Systemic Risk in the Event of a Major Intraday Outage of the Fedwire Funds Service

OVERVIEW

The U.S. payments market could face significant disruption if a major Fedwire® Funds Service (Fedwire Funds)¹ intraday outage (as defined below) made banks unable to process critical/time-sensitive payments through Fedwire Funds², for part of a processing day. While Fedwire Funds is a highly resilient system with robust safeguards and contingencies in place, a major outage remains a plausible situation that must be planned for accordingly. Such an outage might result in liquidity dislocation for the industry and weakened confidence in the financial sector, which could be impacted by the disruption in payment flows. In this situation, a coordinated risk mitigation strategy and rapid response plan can help minimize the impact of a major outage. As part of the Payments Risk Committee's (PRC)³ objective to support risk management practices for the safety and efficiency of financial market infrastructures, the PRC organized a working group to document best practices for handling a major intraday Fedwire Funds outage.

This document summarizes the PRC's best practices for mitigating systemic risk during a major intraday outage of the Fedwire Funds Service.

OBJECTIVES

- Maintain continuity of critical, time-sensitive payments during a major intraday outage.
- Limit liquidity dislocation concerns and maintain confidence in the financial sector.
- Encourage assessment, documentation, and testing of capabilities financial institutions may have to process critical/time-sensitive payments via CHIPS® network (CHIPS) or via CHIPS-participant banks.

DEFINITIONS

Major intraday outage – an outage where it is expected that Fedwire Funds will recover and resume processing during the same Fedwire Funds Transfer Business Day, and Protracted Outage Procedures⁴ have not been activated.

Fedwire Funds business day – The Fedwire Funds business day starts at 9 PM ET on the preceding calendar day and ends at 7 PM ET (Sunday night through Friday night).

CHIPS eligible payments – Payments where the bank sending the payment and the bank receiving the payment are CHIPS participants. This includes payments that are usually settled through Fedwire Funds between those banks (except drawdowns).

¹ "Fedwire" is a registered service mark of the Federal Reserve Banks. "CHIPS" is a registered service mark of The Clearing House Payments Company L.L.C.

² Critical/time-sensitive payments are (i) payments normally made through Fedwire that, if not processed by Fedwire, will directly or indirectly result in a Fedwire participant failing to meet its obligations at other critical financial market infrastructures and (ii) payments with systemic or market importance or contractual timing obligations.

³ The Payments Risk Committee ("PRC" or the "Committee") is a private-sector body sponsored by the Federal Reserve Bank of New York that works to identify and analyze risks in payments, clearing and settlement of financial transactions. The primary goal of the Committee is to foster enhancements to the safety and efficiency of financial market infrastructures, which includes identifying opportunities to strengthen the clearing and settlement of financial transactions.

⁴ As defined in [Operating Circular 6](#) (Funds Transfers through the Fedwire® Funds Service), "Protracted Outage means an interruption or outage of Reserve Bank hardware or software that prevents the Reserve Banks from processing Online Messages and that is not expected to be resolved before the Reserve Banks' next Fedwire Funds Service Funds Transfer Business Day." Operating Circular 6, Appx. B, § 1.2.6. "Protracted Outage Procedures means the procedures established by the Reserve Banks to manually process Critical Payment Orders during a Protracted Outage." Operating Circular 6, Appx. B, § 1.2.10.

BEST PRACTICES

1. **Preparation:** During business as usual / prior to an outage
 - a. Financial institutions should identify their critical/time-sensitive payments and have contingency arrangements to settle these payments during an outage.
 - i. Fedwire Funds participants that are also CHIPS participants should have capabilities to convert eligible payments from processing over Fedwire Funds to CHIPS. Capabilities may be automated or manual. At a minimum, they should address all CHIPS-eligible critical/time-sensitive payments and be able to be implemented in a timely manner during a major intraday outage. Banks should test this capability as part of their regular business continuity testing.
 - ii. Fedwire Funds participants that are not CHIPS participants (“non-CHIPS participants”) should consider establishing relationships with CHIPS participants or other correspondent banks for routing critical/time-sensitive payments, using Swift or that bank’s proprietary channels to send critical/time-sensitive payments through the partner bank. They should also have a plan for obtaining adequate intraday credit or liquidity for processing these transactions when they are not able to use Fedwire Funds to send a funds transfer to fund their correspondent account with their partner bank. Banks should test this capability as part of their regular business continuity testing.
 - b. Banks should have a procedure for how to identify and handle Fedwire Funds payments that are “in flight”/unconfirmed during the outage.
 - c. Banks should incorporate/integrate these best practices with their internal business continuity plans to ensure consistency and clarity during an outage.
 - d. Financial market utilities and other stakeholders should have resiliency plans and communications protocols with their participants and settlement banks, including how deadlines might be extended in the event of a major intraday Fedwire Funds outage.

2. **Mitigation:** When the outage is announced by the Reserve Banks, banks should execute their internal business continuity plans in conjunction with the following suggested practices:
 - a. Communications: Inform impacted business areas of the outage (e.g. credit, market and liquidity areas). Notify customer service division(s) and implement appropriate client communications.
 - b. Impact assessment: volumes, industry cutoffs/critical payment timelines approaching, outage severity.
 - c. CHIPS participants: Join industry calls and route eligible payments via CHIPS in an orderly manner to manage liquidity.
 - i. Non-CHIPS participants that leverage relationships with CHIPS participants or other correspondents should use Swift or the correspondent bank’s proprietary channels to send critical/time-sensitive transactions through the partner bank after confirming the correspondent will process through CHIPS.

3. **Return to normal operations:** Resume business as usual Fedwire Funds processing when the Fedwire Funds Service [status](#) is back to Normal Operations. Review the [Fedwire® Funds Service Business Continuity Guide](#) including the section on What You Should Do After the Disruption is Resolved for more information on handling any remaining unresolved transactions from the time the outage took place and avoiding duplication.