

Federal Reserve's Payment System Risk Policy

Discussed below are two announcements regarding the Federal Reserve's Payment System Risk (PSR) Policy.

Request for comment

The Federal Reserve Board is requesting public comment on a consultation paper that is intended to help the Board obtain broader information on intraday liquidity management issues and to lay the groundwork for discussions about the long-term evolution of its Payment System Risk (PSR) Policy.

The consultation paper seeks information from the financial industry and other interested parties on their experience in managing intraday liquidity, credit, and operational risks associated with Fedwire funds transfers and associated transactions. In particular, the paper requests views on potential changes in market practices, depository institution and Federal Reserve Bank operations, and the Board's PSR Policy that could reduce one or more of these risks, while maintaining or improving the efficiency of the payments system over the long run. Also, the paper includes a brief list of possible changes that might further assist depository institutions, financial markets, and the Federal Reserve Banks in managing intraday risks. Items on the list should be regarded as preliminary and intended for further study.

The consultation paper stems from the Federal Reserve's ongoing review of the long-term effects of market, operational, and policy changes by the financial industry and the Federal Reserve on intraday liquidity and risks in the financial markets and the payments system, including account overdrafts at the Reserve Banks.

Comment is requested by December 15, 2006.

The Board's consultation paper is located at <http://www.federalreserve.gov/boarddocs/press/other/2006/200606152/attachment.pdf>

PSR Policy changes, effective July 20, 2006

In addition, as originally announced in 2004, modifications to the Federal Reserve's PSR Policy will be implemented on July 20, 2006. The changes will affect the processing of interest and redemption payments for securities issued by government-sponsored enterprises (GSEs) and certain international organizations. In conjunction with the policy changes, affected issuers will likely adjust their funding and payment patterns since they will no longer be permitted to incur an overdraft position in their Federal Reserve Bank accounts for purposes of funding interest and redemption payments. Specifically, these changes will affect:

- The number of interest and redemption payments an institution will receive.
- The dollar amount of each individual payment.
- The time of day payments are made.

Additional information on the policy changes can be found at:
<http://www.frbervices.org/Wholesale/FedwireSecuritiesPSR.html>

If you have questions, please call Hillary Debenport, Assistant Vice President, toll free at 1-866-666-8316, or locally at (314) 444-8488.