

Summary of Changes to Operating Circular 7

The Federal Reserve Banks are amending and reorganizing Operating Circular 7, *Fedwire® Securities Service*, including its appendixes, effective February 15, 2022. While there are many changes to the operating circular, as reflected in the redlined version of Operating Circular 7 published on the FRBservices.org® website, most changes are not significant and can be characterized as follows:

Conforming Changes – Many changes to Operating Circular 7 are to conform to relatively recent changes made to other Federal Reserve Bank operating circulars, in particular, Operating Circular 5, *Electronic Access*, and Operating Circular 6, *Funds Transfers Through the Fedwire Funds Service*. For example:

- Terms are added throughout the operating circular to clarify Participant and Reserve Bank roles and obligations related to different message types, including with respect to delivery and receipt of Messages, and adding new definitions for several message terms, such as “Acknowledgment,” “Advice,” “Interception,” “Issuance Message,” “Message,” and “Rejection.” (See changes in sections 3.0 and 6.0.)
- Definitions and terms are added to describe the different types of “Cutoff Times” that the Federal Reserve Banks may set for processing of different message types, such as the “Transfer Processing Window” for Transfer Messages, and activities occurring prior to the Transfer Processing Window. (See sections 3.0 and 12.2.)
- Definitions are added for “Securities Business Day” and “Securities Schedule.” The Securities Schedule, which is contained on the wholesale services operating hours page published on the FRBservices.org website, states the operating hours for the Federal Reserve Banks’ Securities Business Day and each holiday that is not a Securities Business Day. (See section 3.0.)
- New terms are added that require a Participant that receives Offline Messages to be available to receive on a timely basis Messages over the telephone during the Securities Business Day. The provision states that a Federal Reserve Bank may limit the number of attempts it makes to send a Message if the Participant fails to be available in such a manner. (See sections 3.0 and 6.4.4.)
- New sections 14.2.3 through 14.2.7 are added that state the obligations of Participants with respect to sending and handling test messages.

Clarifications – The Federal Reserve Banks are revising and adding certain terms to Operating Circular 7 simply intended to clarify existing terms or to provide additional specificity. For example:

- Definitions are added and applied throughout the operating circular to clarify the existing operating circular terms that are applicable to issuance (e.g., settlement, finality, instructions to Reserve Banks, Message rejections, Advices): “Issuance,” “Issuance Against Payment,” “Issuance Message,” and “Issuer.”
- Terms are added to clarify the obligations of Federal Reserve Banks with regards to cancellations, amendments, and reversals of Transfer Messages, and the restrictions on reversals by Participants.

- Section 6.6 is revised to clarify terms for reporting of errors and other exceptions.
- A new section 15.5 is added to provide that any interest paid in connection with a Federal Reserve Bank's liability under the operating circular are calculated using the federal funds rate.

Reflecting Current Operations – The Reserve Banks are revising Operating Circular 7 to address operational updates and, in some cases, to address gaps in coverage of existing operations.

- A new description is added of certain activities that may occur on a Securities Business Day prior to a Transfer Processing Window, including queuing of Transfer Messages, some payment of principal and/or interest, and securities account maintenance. (See section 6.3.4). A new section 6.3.5 is added that provides for Messages to be processed in an order different from the order in which Participants send them to the Fedwire Securities Service.
- A new section 6.4.7 is added that addresses when the Federal Reserve Banks are unable to send or the Participant does not receive an Advice informing a Participant of a credit of principal and/or interest to its funds account.
- A new section 6.4.7 is added that addresses when the Federal Reserve Banks are unable to send or the Participant does not receive an Advice.

Legal Framework – New terms clarify the nature of the service, as an indirect holding system, and the nature of securities accounts and master accounts in connection with the Fedwire Securities Service.

- A new section 1.2 states that the operating circular is a clearing corporation rule under section 8-111 of Article 8 of the Uniform Commercial Code and a securities account agreement under the Hague Securities Convention. Terms are added throughout the operating circular to reflect that the Fedwire Securities Service is an indirect holding system and the nature of Messages sent to/from Reserve Banks over the service, the credits/debits to securities accounts, and the interests of Participants in securities accounts. (See sections 4.1 and 6.1.)
- Regulations promulgated by issuers or their regulators governing book-entry securities issued over the Fedwire Securities Service will no longer be incorporated by reference into the operating circular, but a new statement in section 1.2 clarifies that depending on the issuer, regulations may nonetheless govern a book-entry security on the Fedwire Securities Service. A new definition for “Applicable Regulations” is added to section 3.0.

Other Key New Terms

- New terms are added to the operating circular that set forth the applicable security procedure for Messages by incorporating sections 2 and 4 of Appendix A to Operating Circular 5. A Message received by a Reserve Bank in compliance with the Participant's selected security procedure is effective and the Reserve Bank is entitled to rely on it. The Reserve Bank has also met the standards of ordinary care, good faith, and reasonable belief that the Message is genuine under UCC Article 8 and Applicable Regulations, as applicable. (See section 5.2)
- A new section 15.4 is added that states the Federal Reserve Banks are not liable for any loss or damage arising from a Participant's or Service Provider's use of any product or service not supplied, owned, or operated by a Federal Reserve Bank that interacts or interfaces with, or otherwise facilitates, a Participant's or Service Provider's use of or access to the Fedwire Securities Service.

Appendixes – The following key changes are made to the appendixes, in addition to conforming changes to those made in the main operating circular:

- Appendix A is reordered alphabetically, an inactive issuer is removed, and citations to certain issuer regulations are updated.
- The content of Appendix B, *Fedwire Securities Service Operating Hours for Book-Entry Securities Transfers*, is removed from Operating Circular 7, and this appendix is reserved for future use.
- Appendix C is renamed *State, Local, and Tribal Collateral Program (Fedwire Securities Joint Custody Service)*. Clarifications are made to the role of Reserve Banks with respect to the joint custody service and the nature of the appendix (see section 2.0); requirements on and representations by the pledgee are added regarding any geographic requirements imposed by applicable law for the Restricted Securities Account and the Pledgor (see section 3.2 and section 10.4); and clarifications are made that the pledgee agrees to the terms of the appendix as amended from time to time by executing a pledgee agreement as the form changes from time to time. (see section 4.0).
- Appendix D is renamed *Automated Claim Adjustment Process for Book-Entry Securities*, definitions are added for "Fail Transaction," "Interim Accounting Transaction," "Repo Balance," and "Repo Transaction," and changes are made throughout Appendix D to incorporate the revised definitions; a new section 2.2.3 is added to clarify how a Receiver can reverse the effect of an ACAP claim with respect to a Fail Transaction; new terms are added detailing the instructions and authorizations Participants provide to Reserve Banks in connection with ACAP services (see sections 3.1.1 and 6.1); the Federal Reserve Banks disclaim liability with respect to any underlying agreement between Participants that may or may not result in an ACAP claim being settled over the Fedwire Securities Services (see section 7.1.1); and section 7.1.4 is modified to provide that Federal Reserve Banks may instruct Participants to make their own adjustments of principal and/or interest if the Federal Reserve Banks are unable to do so.
- Appendix E, *FedPayments[®] Manager for the Fedwire Securities Service*, is amended primarily to align with changes made to Operating Circular 6 last year.