

January 26, 2018

To: Ms. Janet O. Estep  
President and Chief Executive Officer  
NACHA – The Electronic Payments Association  
2550 Wasser Terrace, Suite 400  
Herndon, VA 20171

Dear Jan:

On behalf of the Federal Reserve Banks, the Retail Payments Office (RPO) appreciates the opportunity to respond to NACHA’s Request for Comment (RFC) regarding “Expanding Same Day ACH,” dated December 1, 2017. Along with the RPO, a number of key stakeholders from other Federal Reserve product offices contributed to the content of this response, including the Wholesale Product Office, who has responsibility for the Fedwire Funds, Fedwire Securities and National Settlement Service (NSS)<sup>1</sup>, and the Financial Support Office, who provides financial management leadership for the system. The Federal Reserve Banks are very supportive of the faster payments concept, and we welcome the opportunity to work with NACHA to further efforts towards faster ACH settlement, while maintaining the quality, safety, and reliability of the ACH network.

Specifically, the RFC seeks comment on the following proposals:

1. Add a third Same Day ACH processing window later in the day;
2. Provide faster funds availability for both Same Day and non-Same Day ACH credits; and
3. Raise the per-transaction dollar limit for Same Day ACH entries.

**Proposal #1: Add a third Same Day ACH processing window.**

The NACHA proposal suggests potential changes to the following processing schedules and deadlines in order to accommodate the additional Same Day ACH window:

- Add a new Same Day ACH window with the following target deadlines:
  - 5:15 pm ET/2:15 pm PT      Input to ACH Operators
  - 6:30 pm ET/3:30 pm PT      ACH settlement
- Remove the late returns processing window and incorporate the returns service into the newly proposed late afternoon Same Day ACH processing window with a 6:30 pm ET settlement, as described above.
- Modify the NSS closing time from 5:30 pm ET to 7:00 pm ET.
- Modify the Fedwire Funds closing time for third-parties from 6:00 pm ET to 7:15 pm ET.
- Modify the Fedwire Funds closing time for settlement payment orders from 6:30 pm ET to 7:30 pm ET.

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<sup>1</sup> The National Settlement Service (NSS) allows participants in private-sector clearing arrangements to exchange and settle transactions on a multilateral basis through designated master accounts held at Federal Reserve Banks, and operates from 7:30 am ET - 5:30 pm ET.

The business day opening times for the NSS and the Fedwire Funds service would remain unchanged at 7:30 am ET and 9:00 pm ET.

In our role as an ACH Operator, the impact of this change equates to a medium-to-large effort of software, procedural, and operational changes. However, the addition of a later Same Day ACH deadline also necessitates a later NSS closing time. As a result, we anticipate changes not only to ACH and NSS, but to other Federal Reserve upstream, downstream, and interdependent applications as well. A few of the broader applications impacted would include both internal and external customer-facing services: Fedwire Funds, Fedwire Securities, accounting applications, and billing.

One concern we have relates to the absorption of the late returns processing window. At any time, the newly proposed 6:30 pm ET settlement could include forward and return entries. However, without an additional, returns-only processing window at the end of the business day, the receiving financial institution has no ability to settle the return until the next business day. This may present risk for those financial institutions receiving Same Day ACH transactions in the last processing window

In addition, a more important topic of discussion relates to the unknown impact to the non-ACH payment participants, who may be negatively affected by the schedule changes in the NSS and Fedwire services, as well by those ancillary upstream and downstream applications. Our customers depend on the Federal Reserve to provide valuable information that allows them to make informed, critical financial decisions in a timely manner. The current NSS and Fedwire schedules include brief time gaps to allow our customers to review reports and verify balances before executing the next action in their processing flow. In addition, the current processing schedules include limited time to properly handle exception conditions (whether customer- or Operator-related) that could potentially result in a processing delay. Essentially, in order to make room for the new proposed window, the time gaps between events would need to be compressed: the Federal Reserve would need to compress the time between the NSS closing time and the Fedwire Funds Third Party closing time from 30 minutes to 15 minutes; the time between the Fedwire Funds Third Party closing time and the Fedwire Funds closing time would need to be reduced from 30 minutes to 15 minutes; and finally, the time gap between the Fedwire Funds closing time and Fedwire Funds opening time would need to change from 2.5 hours to 1.5 hours. As schedules are compressed and less time exists between events, this could result in: 1) either us or our customers having less time to correct a problematic situation before the next event or deadline; 2) a reduction in our ability to grant a customer extension request for a particular service; and/or 3) customers receiving reports later than expected, which may have additional downstream operational or processing impacts. Delays in meeting deadlines of one system could result in a negative domino effect, potentially affecting financial markets. Therefore, we are very interested in understanding the payments industry feedback about the broader system impacts of this proposal and specifically feedback related to the compression of the proposed schedule.

The Federal Reserve Banks support NACHA's initiative to explore expansion of processing and settlement schedules for Same Day ACH based on industry demand. With that said, however, the expansion of the ACH processing windows has broader impact to other systems and policies, and those elements must be carefully considered and incorporated into the final proposed schedules and implementation timelines.

**Proposal #2: Provide faster funds availability for both Same Day and non-Same Day ACH credits.**

The funds availability changes as proposed in the RFC would not impact the Federal Reserve Banks as an ACH Operator. However, as an ACH industry participant, it would seem logical to institute tighter funds availability requirements that more closely align with the speed of a credit transaction, whether same day or not.

Consequently, if the industry is in favor of the proposed faster funds availability requirements for both Same Day ACH and non-Same Day ACH credit entries, the Federal Reserve Banks support the proposal.

**Proposal #3: Raise the per-transaction dollar limit for Same Day ACH entries.**

The third and final proposal within the RFC recommends the current per-transaction dollar limit for Same Day ACH entries be raised from \$25,000 to \$100,000. The new dollar limit would apply to any type of Same Day ACH forward entry, whether commercial or government, debit or credit, and all other Same Day ACH rules pertaining to eligibility would remain the same.

As an ACH Operator, the impact of increasing the per-transaction dollar limit for Same Day ACH entries is considered minimal, particularly as compared to the effort required to implement a new Same Day ACH window. From a risk perspective, this rule change, if combined with the additional Same Day ACH processing window, may cause risk for those receiving depository institutions (RDFIs) that will be required to accept a larger-dollar debit entry at the end of the business day with no ability to settle the return on the same day. Increasing the Same Day ACH per-transaction dollar limit from \$25,000 to \$100,000 will expand the number of entries that are eligible for Same Day ACH, including those entries that are stale-dated. Thus, there is the possibility of stale-dated, large-dollar debit entries settling same day. Input from the industry will help to assess the degree to which these risks can be managed by RDFIs.

Assuming RDFIs can effectively manage these risks, the Federal Reserve Banks support the proposal to raise the per-transaction dollar limit for Same Day ACH entries, as described in the RFC.

**Proposed Implementation Dates**

Following are the separate implementation dates proposed for each of the three proposals, and our comments on each:

1. Faster funds availability - Proposed implementation date: March 15, 2019  
This proposal has no impact on the Federal Reserve Banks as an ACH Operator. Consequently, we could operationally support the proposed implementation date of March 15, 2019.
2. Add a new, third Same Day ACH processing window – Proposed implementation date: September 20, 2019  
Due to other technology commitments already in progress, i.e. the Federal Reserve’s ACH platform modernization project, we are unable to operationally support an effective date of September 20, 2019, for an additional Same Day ACH processing window.

The Retail Payments Office and the other Federal Reserve Financial Services product and support offices are conducting an evaluation of the operational changes and potential downstream impacts associated with implementing a later Same Day ACH deadline. Once we complete this assessment, which is targeted for 2Q 2018, we will be able to provide informed input into an implementation date. Our input, however, should not be viewed as a commitment to make the changes since the Board of Governors would still need to seek public comment on the Reserve Banks providing an additional Same Day ACH processing window.

3. Increase the per-transaction dollar limit – Proposed Implementation date: March 20, 2020  
As previously mentioned, increasing the dollar limit of the Same Day ACH transaction from \$25,000 to \$100,000 will require minimal effort if implemented as proposed. Therefore, we could operationally support the proposed effective date of March 20, 2020.

In closing, the Retail Payments Office, on behalf of Federal Reserve Financial Services product and support offices, appreciates the opportunity to provide comment, and we look forward to the ongoing dialogue as the concept moves through NACHA's rule making process.

Sincerely,

Cheryl Venable

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