



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, DC 20551

DIVISION OF RESERVE BANK
OPERATIONS AND PAYMENT SYSTEMS

February 1, 2018

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

Dear Janet:

Thank you for the opportunity to comment on NACHA's December 1, 2017 proposal to add a third same-day ACH processing window. The Board of Governors of the Federal Reserve System (Board) continues to pursue efforts to enhance payment and settlement services to support improvements in the speed, safety, and efficiency of the U.S. payment system. Board staff share NACHA's interest in a successful same-day ACH service, an important component in the broader initiative to modernize and improve the U.S. payment system, and support the broad objectives of NACHA's proposal to add a third same-day ACH window. Greater adoption and use of same-day ACH capabilities should provide further improvement to the speed of payments and support the business needs of the same-day ACH service.

The changes proposed by NACHA would require modifications to services offered by the Federal Reserve Banks (Reserve Banks) beyond FedACH that could have significant downstream impacts for the financial system. The most significant modification required for a third same-day ACH processing window would be expansion of operating hours for the Fedwire Funds Service and the National Settlement Service, compressing end-of-day functions for both the Reserve Banks and financial institutions. The resulting shortened interim period between the close and open for the following day of the Fedwire Funds Service would provide less flexibility to extend operating hours for certain operational issues or to prevent a significant market disruption. The risk implications of these changes for individual financial institutions and the broader financial system are significant, and require careful consideration.

In addition to the risk issues, the Reserve Banks and financial institutions would need to implement staffing, technical, and business process changes for these affected

payments services and their supporting applications in order to extend operating hours. In addition, although less significant, revision of existing Board policies, such as the Payments System Risk policy, as well as multiple Reserve Bank Operating Circulars would also be necessary, with subsequent adjustments by private-sector financial institutions.

Board staff appreciates NACHA's efforts to solicit feedback, including conversations with staff from the Board and Reserve Banks (collectively the Federal Reserve) regarding necessary changes to Reserve Bank services. However, the Federal Reserve cannot currently commit to any changes to Reserve Bank services, as the Federal Reserve would need to fully evaluate the potential downstream impacts before making any changes. Further, the Board would need to request public comment before committing to a third same-day ACH processing window.

Finally, while Board staff did not provide specific comments on NACHA's other proposals, in the event they are adopted, we encourage NACHA to consider the implications of the proposed changes individually and collectively to avoid introducing additional and unnecessary risks caused by multiple significant and simultaneous changes.¹ For example, if NACHA were to adopt an additional same-day window, alongside an increase to the same-day ACH per-transaction dollar limit, and without a subsequent returns-only window, it may compound the risks of each change individually. We encourage NACHA to consider the risks and mitigation techniques that could be employed by financial institutions prior to adoption.

In closing, Board staff believe that the ACH system has long provided individuals, businesses, and other organizations with a safe, efficient, and low-cost method for effecting various types of payments. While we need to fully assess the broader operational and market impacts of a third same-day ACH window, we agree with NACHA that same-day ACH services should allow for broad participation by financial institutions and end-users.

The Retail Payments Office has provided additional comments on NACHA's proposals. We have not repeated those comments here but fully support them.

Sincerely,



Matthew Eichner
Director

c: Michael Herd, Senior Vice President, ACH Network Administration, NACHA
Jane Larimer, Chief Operating Officer and General Counsel, NACHA
Cheryl Venable, Executive Vice President and Retail Payments Product Manager, FRB Atlanta
Ken Isaacson, Senior Vice President and Wholesale Product Manager, FRB New York

¹ We also did not formally respond to NACHA's Request for Information on exploring the industry's interest in ACH processing on weekends and holidays; however, Board staff would likely have similar concerns to those described in this letter.