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via email: [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)

July 15, 2019

Ms. Ann E. Misback  
Secretary  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue NW  
Washington, DC 20551

Re: Docket Number OP-1664  
Request for Comment - Potential Modifications to the Federal Reserve Banks' National Settlement Service and Fedwire Funds Service to Support Enhancements to the Same-Day ACH Service and Corresponding Changes to the Federal Reserve Policy on Payment System Risk

Dear Ms. Misback:

The Independent Community Bankers of America ("ICBA")<sup>1</sup> is pleased to submit comments regarding the Federal Reserve Board's ("Board") request for comment on potential changes to the Federal Reserve Banks' National Settlement Service ("NSS"), Fedwire Funds Service ("Fedwire"), and Payments System Risk ("PSR") policy. These changes are needed to support a third same-day ACH processing and settlement window.

### Background

In September 2018, NACHA approved an additional same-day ACH processing and settlement window at the end of the day, with an afternoon submission deadline of 4:45 p.m. ET, and settlement occurring at 6:00 p.m. ET. This new processing and settlement window necessitates changes to the NSS and Fedwire deadlines, prompting the need for the Board to propose new cutoff times in anticipation of the March 19, 2021, implementation date for the new processing and settlement window.

The Board is proposing to extend NSS operating hours by moving the closing from 5:30 p.m. to 6:30 p.m. ET and, extending the Fedwire closing by 30 minutes, from 6:30 p.m. to 7:00 p.m. ET. The Board is proposing to extend the cutoff time for Reserve Bank accountholders to initiate

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<sup>1</sup> The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. With more than 52,000 locations nationwide, community banks constitute 99 percent of all banks, employ more than 760,000 Americans and are the only physical banking presence in one in five U.S. counties. Holding more than \$4.9 trillion in assets, \$3.9 trillion in deposits, and \$3.4 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers' dreams in communities throughout America. For more information, visit ICBA's website at [www.icba.org](http://www.icba.org).

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transfers on behalf of third parties via Fedwire (the “third-party cutoff”) by 45 minutes, from 6:00 p.m. to 6:45 p.m. ET.

Lastly, the Board is proposing changes to the Federal Reserve’s Payment System Risk Policy to account for the third same-day ACH settlement at 6:00 p.m. ET, and adjust the approach for calculating fees for daylight overdrafts.

### ICBA Comments

ICBA is an enthusiastic supporter of same-day ACH beginning with the issuance of its April 2013 white paper, “Same-Day ACH: An Opportunity for Leadership”. ICBA continues its strong advocacy for keeping the bank-centric ACH payments system relevant, efficient and robust as technology and consumer and business needs for payment services continues to evolve.

In summary, ICBA

- strongly supports the proposed changes to the NSS and Fedwire operating hours, and the PSR policy establishing a third processing window for same-day ACH transactions for both debits and credits to meet NACHA’s March 19, 2021 implementation date;
- urges the Board to move with the utmost speed when considering future efficiencies as it has the authority to make settlement more efficient;
- believes risks of end-of-day compression are small in comparison to the benefits of expanded same-day ACH hours; and
- supports all changes to Fedwire policies and practices that would reduce the risk of frequent delays to Fedwire reopening as none of proposed options would adversely affect community banks.

Please see ICBA’s comments below for additional information.

#### *A. The Board Has Responsibility and Authority to Offer a Service Enhancement Without Seeking Public Comment.*

The Board views the proposed changes to both NSS and Fedwire as major service enhancements which require Federal Reserve Banks meeting the criteria set forth in the Board’s Policy Statement, Federal Reserve in the Payments System (“Policy Statement”).

The Policy Statement establishes three criteria that must be met before the Federal Reserve introduces a new service or a major service enhancement. First, the Federal Reserve must

expect to achieve full recovery of costs over the long run. Second, the service will yield a clear public benefit in the areas of payments system integrity, effectiveness of financial markets, risk reduction or improving payments system efficiency. Third, the service should be one that other providers, alone, cannot be expected to provide with reasonable effectiveness, scope and equity.

It is vital to the relevancy of the ACH for the Federal Reserve to nimbly make changes to accommodate changes to the *NACHA Rules*. Such changes are part of maintaining a relevant payment system and should not be regarded as a major system enhancement.

ICBA wholeheartedly supports the proposed modifications, and strongly believes this new functionality meets the criteria set forth in the Policy Statement. ICBA, however, contends these proposed changes are functional in nature and should not be subject to the Policy Statement Criteria.

*B. The Rewards of a Faster, Efficient Payment System Outweigh the Possible Risks.*

ICBA recognizes that the proposed changes to Fedwire and NSS may pose challenges for some financial institutions and carry some risks. Moreover, ICBA acknowledges that community banks will need to make changes to accommodate the proposed end-of-day compression between NSS closing, the third-party cutoff and Fedwire closing. ICBA anticipates that financial institutions will be able to make the changes with little difficulty in support of the third same-day ACH window. The risks associated with such end-of-day compression were well articulated and understood by the industry as part of the NACHA rulemaking process.

ICBA believes that the strong support for the third same-day ACH window from financial institutions of all sizes demonstrates that, on balance, the industry considers the end-of-day compression risk small in comparison to the benefits of expanded same-day ACH hours. We also believe that banks can appropriately manage and mitigate the risks, though we encourage the Board to continue to monitor these risks as the U.S. payment system evolves.

Additionally, the Board requests comment on potential options to mitigate the risk of more-frequent delays to the reopening of Fedwire. The Board offers three options to reduce the risk of frequent delays to the reopening of Fedwire: (i) increasing the current \$1 billion value threshold for providing Fedwire extensions to the third-party cutoff or Fedwire closing time (e.g., to \$5 billion), (ii) changing the practice of maintaining a 2-hour window between the closing and reopening of Fedwire, and (iii) implementing a \$5 billion threshold for extensions and reducing the two-hour window between the closing and reopening of the Fedwire from 2 hours to ninety minutes.

ICBA supports changes to Fedwire policies and practices that would reduce the risk of frequent delays to Fedwire reopening and none of the options would adversely impact community banks.

*C. Corresponding Changes to the Payment System Risk Policy are Appropriate*

The Board also proposes changes to the Federal Reserve's Payment System Risk Policy to account for the third same-day ACH settlement at 6:00 p.m. and adjust the approach for calculating fees for daylight overdrafts, which is based on the length of the Fedwire operating day. In particular, the daylight overdraft fee rate is calculated using an annual rate of 50 basis points that is prorated to the length of the Fedwire operating day. The Board explains that "[i]f the operating hours of the Fedwire day increase by 30 minutes, the effective annual rate would be (22/24) multiplied by 50 basis points, or approximately 0.004583, and the effective daily rate would increase by about 2.4 percent to 0.0000127."

ICBA supports the proposed corresponding changes to the Payment System Risk Policy and finds them appropriate for the addition of this new settlement window

ICBA appreciates the opportunity to comment on these proposed changes. Please do not hesitate to contact me at [cary.whaley@icba.org](mailto:cary.whaley@icba.org) or 202.659.8111 with any questions regarding our comments.

Sincerely,

/s/

Cary Whaley  
First Vice President, Payments and Technology Policy