JPMorganChase

David A. Weisbrod
Senior Vice President
Treasury & Securities Services - Risk Management

May 30, 2008

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

Re: Docket No. OP-1310
<u>Proposed Changes to Posting Time for ACH Debit Transfers and Treasury Tax and Loan (TT&L) Investments</u>

Governors:

JPMorgan Chase Bank, N.A. ("JPMorgan") is pleased to provide comments to the Board of Governors of the Federal Reserve System (the "Board") on its proposal (Docket No. OP-1310) to change the posting time for commercial and government ACH debit transfers and Treasury Tax and Loan (TT&L) investments to 8:30 a.m. from the current posting time of 11:00 a.m. This will coincide with the current 8:30 a.m. posting time for ACH credit transfers, resulting in a simultaneous posting time for all ACH debit and credit transfers and TT&L investment transfers processed through the FedACH service.

As the nation's largest originator of ACH network transactions, JPMorgan supports the Board's efforts to improve the efficiency of, and reduce the risks in, the ACH payments system. In particular, JPMorgan commends the Board's efforts to make changes intended to reduce depository institutions' need for intraday liquidity from Reserve Banks. As indicated in our separate letter submitted [today] on the Board's proposed changes to the policy on Payments System Risk (PSR) under Docket no. OP-1309, JPMorgan shares the Federal Reserve's concerns over the increasing number of large-value Fedwire payments effected late in the day and increased use of daylight overdrafts at the Reserve Banks.

Although the proposed change in posting time for ACH debits will not have a significant impact on JPMorgan's overall position and need for liquidity because ACH represents a relatively small part of the overall settlement activity in our Reserve account, it is our view that the change will have a beneficial effect in reducing payment system risk generally and we support the proposal. Specifically, for institutions (like ours) that originate a large value of ACH debit transfers, the change in posting time for ACH debits will help reduce the need for intraday liquidity from Reserve Banks. We also view as a positive effect the alignment of the Reserve Banks' FedACH settlement times with those of its private sectors competitor EPN. Finally, we agree with the Board's view that moving the posting time for ACH debits and TT&L transactions to 8:30 a.m. will result in an improvement in measuring daylight overdrafts in total, as all ACH transactions (debits and credits) will then post at the same time and institutions will have a clearer view of their net positions.

While the proposed change could have a negative impact on large receivers of ACH debits, requiring them to either obtain additional funding or incur greater daylight overdrafts at 8:30 a.m., we feel that any such negative impact would be relatively small compared to the advantages of the change outlined in the preceding paragraph and in the Board's proposal. Any negative impact to these institutions will potentially be mitigated by the pricing changes for collateralized overdrafts being proposed in Docket No. OP-1309.

The following are our responses to the specific questions posed by the Board under Docket OP-1310.

1. To what extent do institutions that originate debit transfers through FedACH incur competitive disparities because of the difference in settlement times between operators? To what extent would adopting the proposal alter this situation?

Although JPMorgan is a large originator of ACH debit transfers and settles through both ACH operators, we do not view the difference in settlement times between FedACH and EPN as creating a competitive disparity because our overall reserve account activity is so large that ACH transactions generally have only a small impact on our intraday liquidity. However, for smaller institutions that originate both ACH debit transfers and ACH credit transfers and settle solely or primarily through FedACH, the current 11:00 a.m. settlement time may create a competitive disparity between those institutions and similarly situated institutions that settle solely or primarily through EPN; the institutions settling through FedACH must obtain funding by 8:30 a.m. for their ACH credit originations that would not be needed if the ACH credit and debit transfers posted simultaneously. If the proposed change is implemented, the liquidity needed to fund settlement of ACH credit originations at 8:30 a.m. could be largely or entirely offset by the receipt of funds from the settlement of ACH debit transfers also at 8:30 a.m. Accordingly, we feel that adopting the proposal would reduce or eliminate any competitive disparities incurred by institutions that solely or primarily originate ACH debit and credit transfers through FedACH.

2. To what extent are there competitive disparities between ACH operators because of the difference in settlement times? To what extent would adopting the proposal alter this situation?

We have not perceived any competitive disparity between EPN and FedACH resulting from the difference in settlement times at the two operators. JPMorgan is far more concerned about balancing the volume of our work appropriately between the two operators; we do not consider posting times to be a key factor in our selection of ACH operators. This is due, at least in part, to the fact that ACH settlement does not generally represent a significant component of

JPMorgan's overall Reserve account settlement activity and does not significantly affect our need for intraday liquidity. It may be a factor, however, for smaller institutions, especially those that are large originators of ACH debit transfers. In any event, the proposed change in posting times will level the playing field for EPN and FedACH and should remove any competitive disparities that are caused by the difference in posting times at the two ACH operators.

3. Would the proposed change have an effect on the availability of funds to customers of depository institutions?

We anticipate that the proposed change would not have any effect on the funds availability JPMorgan provides to its customers. JPMorgan's funds availability policies relating to ACH transfers are not impacted by the times at which ACH transactions are posted to our Federal Reserve accounts. At institutions where ACH transactions constitute a larger proportion of their overall Reserve account activity, the proposed change in posting time might translate into earlier funds availability for customers that originate ACH debits.

4. To what extent would the proposed broader PSR policy changes, including zero fee for collateralized daylight overdrafts, mitigate the liquidity concerns of *originating* institutions if the Board did *not* adopt the proposed change to the posting rules for ACH debit transfers?

The Boards proposed broader PSR policy changes may help reduce liquidity risk in the payments system generally and therefore should help to reduce liquidity concerns of ACH originating institutions even if the Board does not adopt the proposed change to the ACH posting rules. However, of all ACH participants, the proposed change to the posting rules is likely to have the greatest beneficial impact to large originators of debit transfers and for those entities, this change could significantly mitigate liquidity concerns when coupled with the broader PSR policy changes.

5. To what extent would the proposed broader PSR policy changes, including zero fee for collateralized daylight overdrafts, mitigate the liquidity concerns of *receiving* institutions of the proposed change to the posting rules for ACH debit transfers?

As the Board noted, the proposed change to the posting rules for ACH debit transfers could have a negative impact on institutions that receive a large amount of ACH debit transfers because they would have to fund those transfers at 8:30 a.m. instead of the current time of 11:00 a.m. The proposed broader PSR policy changes should mitigate the liquidity concerns of those receiving institutions that have available collateral to collateralize their daylight overdrafts because the costs currently associated with uncollateralized daylight overdrafts will go away. This should offset, to some extent, the negative impact of the proposed change to ACH posting times on those receiving institutions. However, the broader PSR policy changes will have less beneficial impact on smaller ACH receiving institutions that either do not have sufficient eligible collateral, or cannot pledge additional collateral, or are ineligible to incur daylight overdrafts. For institutions that are large receivers of ACH debit transfers and that are eligible for daylight overdrafts but do not have sufficient eligible collateral, or cannot pledge additional, the proposed ACH posting change could result in higher fees being charged to those institutions. However, as noted in the proposal, this is a very small subset of institutions. For receiving institutions that are not eligible to incur daylight overdrafts, there would be no counteracting positive effect from the broader PSR policy changes.

6. Under the current and the proposed PSR policy, what costs would institutions expect to incur to fund their Federal Reserve accounts by 8:30 a.m. for ACH debit transfers, particularly if the institutions did not want or were ineligible to incur daylight overdrafts?

JPMorgan would not expect to incur any significant additional costs under the proposed PSR policy to fund our Reserve account by 8:30 a.m. because we are eligible to incur daylight overdrafts. However, smaller banks that are large receivers of ACH debit and that are either ineligible to incur daylight overdrafts or are eligible but do not have sufficient eligible collateral and cannot pledge additional collateral, may have to pay higher fees if the proposal is adopted because they will have to fund their Reserve accounts two and a half hours earlier.

7. If the Board changed the posting times for ACH debit transfers and EFTPS ACH debit transfers to 8:30 a.m., is six months a sufficient lead time for implementation to enable institutions to make plans to secure additional funding, as needed? Alternatively, should the Board implement the change to the posting rules at the same time as the proposed broader PSR policy changes to provide institutions an opportunity to pledge (additional) collateral to manage a possible increase in fees?

It is JPMorgan's view that six months is a sufficient lead time for implementation of the proposed change to the ACH posting times.

We thank the Board for the opportunity to comment upon the proposed changes to the FedACH posting times and hope that these comments have been helpful.

Very truly yours,

David A. Weisbrod