



May 27, 2008

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

Re: Docket No. OP-1310  
Policy on Payments System Risk:  
Daylight Overdraft Posting Rules

Dear Ms. Johnson:

The Association for Financial Professionals (AFP) welcomes the opportunity to comment on a proposed change to the Federal Reserve Board's daylight overdraft posting rules under its Payments System Risk policy to align the posting times for ACH credit and debit transfers in the payments system.

AFP represents approximately 16,000 finance and treasury professionals who, on behalf of over 5,000 corporations and other organizations, are significant participants in the nation's payments system. Organizations represented by its members are drawn generally from the Fortune 1,000 and the largest of the middle market companies. Many of AFP's members have responsibility for the origination and receipt of ACH and wire transfer payments and for their organization's treasury management operations. They thus have a significant stake in the adoption of policies that promote the efficiency and safety of payment systems.

### **Current and Proposed Rules**

Under current posting rules, automated clearing house (ACH) credit transfers processed by the Federal Reserve Banks' FedACH service are posted at 8:30 a.m. Eastern Time (ET) while ACH debit transfers are posted at 11:00 a.m. ET. The Fed proposes to change the posting time for ACH debit transfers processed by the Reserve Banks' FedACH service to 8:30 a.m. ET to coincide with the posting time for ACH credit transfers.

The Fed states that the earlier posting time for ACH debit transfers would increase significantly the liquidity of institutions that originate a large dollar value of ACH debit transfers over the FedACH network. The 8:30 a.m. ACH debit posting time would also align FedACH settlement times with those of the private-sector Electronic Payments Network (EPN), which already posts ACH debits at 8:30 a.m. ET.

The proposed change in the ACH debit posting time is part of a broader Fed initiative to manage and reduce intraday liquidity, credit and operational risks in the payments system. In recent years, the growth in the value and volume of Fedwire funds transfers have increased the demand for intraday liquidity and caused a steady rise in daylight overdrafts at the Reserve Banks. As a result of financial institutions' intraday liquidity management strategies and other factors, the volume and value of large Fedwire payments made late in the day has grown.

Concurrent with the proposal to change the ACH debit posting time, the Fed proposed a broader set of policy changes to loosen intraday liquidity constraints and reduce operational risks in the payments system. These include a proposal for the Fed to supply intraday balances at a zero fee to healthy depository institutions that voluntarily pledge collateral to secure their daylight overdrafts. This change would help institutions whose liquidity would be adversely affected by the ACH debit posting time change to avoid increased fees.

### **AFP Recommendation**

AFP supports the proposal to change the posting time for ACH debit transfers to align with the 8:30 a.m. ET posting time for ACH credit transfers.

- Earlier and simultaneous posting times for ACH credits and ACH debits improves the efficiency of the cash positioning process for corporations and other organizations.
- Increased intraday liquidity for financial institutions will help reduce the incidence of late-day wire transfers caused by financial institutions managing their daylight overdraft positions.

### **Efficient Cash Positioning**

Most companies establish their cash positions early in the morning. Timely information about available funds is critical to efficient and cost-effective cash positioning processes for both borrowers and investors. Borrowing deadlines generally range from 11 a.m. to 12:30 p.m. Companies that miss a borrowing or investment redemption deadline might not have sufficient liquidity or they might incur increased interest expense to obtain funds. Companies with excess cash to invest may receive lower interest rates on investments that could not be made on a timely basis in the morning.

Some companies already receive notification of ACH debit and credit totals in the early morning. However, timely notification of ACH debit totals is unpredictable. Large ACH debits will occasionally be posted to accounts in late morning, requiring companies to maintain large-dollar balances as a cushion to mitigate the risk of later ACH debits and avoid costly overdrafts. The proposed 8:30 a.m. ET posting of ACH debit transfers would eliminate the uncertainty of later notification.

The proposed alignment of ACH debit and credit posting times will enable businesses to accurately establish cash positions early in the day, help reduce idle cash balances, avoid unnecessary expense and allow financial resources to be devoted to more productive uses.

### **Reduction in Fedwire Funds Transfer Delays**

In AFP's March 2007 letter to the Federal Reserve Board commenting on the Fed's intraday liquidity management and Payments System Risk Policy, AFP recommended that the Fed take urgent action to reduce the incidence of late-day wires and restore the efficiency of the Fedwire funds transfer system. AFP reported that the increase in late-in-the-day wire transfers had created inefficiencies in corporate financial transactions, added costs for U.S. businesses without economic benefit and introduced new uncertainties in financial markets.

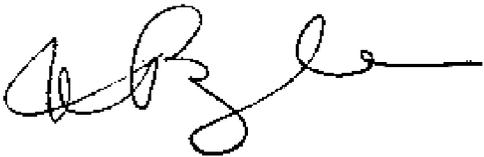
Wire transfer delays caused by financial institutions managing their daylight overdraft positions have a cascading, negative effect on the settlement of financial transactions. When a corporation borrows on a line of credit, sells commercial paper or receives funds from maturing investments, the wire with incoming funds often does not arrive until late in the day. Because this places the company in a daylight overdraft position, its outbound wires to a third party are delayed.

The change in the ACH debit posting time to alleviate liquidity constraints is an important first step toward reducing the risks and improving the efficiency of the Fedwire funds transfer system.

AFP recommends that the Fed implement as soon as feasible the simultaneous posting at 8:30 a.m. ET of ACH debit and ACH credit transfers processed by the Reserve Bank's FedACH service.

AFP appreciates the opportunity to comment on the change to daylight overdraft posting rules under the Federal Reserve Board's Payments System Risk policy. Please address questions about AFP's position to Arlene Chapman at AFP, 301-907-2862.

Sincerely,



Maureen O'Boyle, CCM  
Assistant Treasurer  
Shaklee Corporation  
Chairman  
AFP Government Relations Committee



Rue Jenkins  
Assistant Treasurer  
Costco Wholesale Corporation  
Chairman  
AFP Payments Advisory Group