American Bankers Association
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Robert deV. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Docket No. R-1473 Collection of Checks and Other Items by Federal Reserve Banks and Funds Transfers Through Fedwire; Time of Settlement by a Paying Bank for an Item Received from a Reserve Bank

Dear Mr. deV. Frierson:

The American Bankers Association (ABA)[1] respectfully submits comments to the Board of Governors of the Federal Reserve System (Board), on the proposed change to the *Collection of Checks and Other Items by Federal Reserve Banks and Funds Transfers Through Fedwire; Time of Settlement by a Paying Bank for an Item Received from a Reserve Bank (Proposal)*. The Proposal would amend Regulation J by shortening the time period when paying banks must make settlement proceeds available after presentment of checks. The proposal would also allow Reserve Banks to obtain settlement from paying banks earlier in the morning, beginning at 8:30 am. These changes to Regulation J are being made in conjunction with a companion proposal regarding the posting of debits and credits to bank's Federal Reserve Accounts as proposed in *Federal Reserve Policy on Payment System Risk; Procedures for Measuring Daylight Overdrafts*. ABA supported the changes related to Regulation J in the proposal on Payment System Risk policy.

Summary

This proposal is being made in conjunction with the Board proposal making changes to its Payment Systems Risk (PSR) policy. The PSR policy changes relate to posting ACH credit and debit entries as well as commercial check transactions to institutions' Federal Reserve accounts. The proposal to amend Regulation J would support the proposed change to the PSR policy.

The proposal would amend Regulation J so that paying banks would settle for an item by the latest of:

A. The next clock hour or clock half-hour that is at least one half-hour after the paying bank receives the item;

[1] The American Bankers Association represents banks of all sizes and charters and is the voice for the nation's $14 trillion banking industry and its 2 million employees. ABA's extensive resources enhance the success of the nation's banks and strengthen America's economy and communities. Learn more at www.aba.com.

B. 8:30 a.m.; or
C. Such later time as provided in the Reserve Banks' operating circulars.

ABA supports this proposal.

The Half-Hour Window
Currently, there is a one-hour window allowed for the paying bank to settle with a Federal Reserve Bank after check presentment. This window was established in 1992 when almost all checks were processed in their original paper form and 11 years before the Check 21 legislation was enacted bringing on a wave of digital automation improvements to the industry. The Board proposes that improved automation practices should allow paying banks the opportunity to perform a limited verification of cash letters in 30 minutes instead of one hour.

ABA supports the proposal shortening the time period between presentment and settlement of checks to one half-hour. ABA agrees that advances in check processing technology allows for a shorter period between presentment and settlement of checks.

ABA does not support the alternative proposal to shorten the time period to 15 minutes.

Earliest Settlement Time at 8:30 a.m.
The current earliest settlement time is 9:30 a.m. as per a revision to the rule made in 1997. This proposal would move that time to 8:30 a.m.

Institutions will need to prepare to receive checks at the earlier time and have funding available to cover them. Recent changes to the rules allow the Federal Reserve to pay interest on balances held in accounts by institutions. This reduces the cost to institutions of holding funds overnight to cover any checks presented earlier in the morning.

ABA supports the proposal to move the earliest settlement time a paying bank could be required to settle an item to 8:30 a.m.

ABA does not support the alternative proposal to move the settlement time earlier than 8:30 a.m.

Effective Dates
ABA supports the proposed effective date of six months after the posting of the final rule.

Thank you for the opportunity to comment on this proposal to amend Regulation J. If you have any questions about these comments please contact the undersigned at (202)-663-5147.

Sincerely,

Stephen K. Kenneally
Vice President
Center for Regulatory Compliance