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February 10, 2014

Submitted via: regs.comments@federalreserve.gov

Mr. 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-1472
Federal Reserve Policy on Payment System Risk;
Procedures for Measuring Daylight Overdrafts

Dear Mr. deV. Frierson:

The Independent Community Bankers of America (ICBA)¹ is pleased to submit comments regarding the Federal Reserve Board (Board) statement on multiple changes to part II of the Federal Reserve Policy on Payment System Risk (PSR policy) related to the procedures for measuring intraday balances in financial institutions' accounts at Federal Reserve Banks (Reserve Banks).

¹ Independent Community Bankers of America® (ICBA), the nation's voice for nearly 7,000 community banks of all sizes and charter types, is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education and high-quality products and services.

ICBA members operate approximately 23,600 locations nationwide, employ almost 300,000 Americans and hold more than \$1.2 trillion in assets, \$1 trillion in deposits and \$750 billion in loans to consumers, small businesses and the agricultural community. For more information, visit www.icba.org

On December 2013, the Board proposed three revisions to PSR policy:

1. Change the posting time for commercial and government ACH debit transfers from 11:00 a.m. ET to 8:30 a.m. ET to coincide with the posting time for commercial and government ACH credit transfers.
2. Change the posting time for receiving most commercial check credits for deposits and debits for presentments to 8:30 a.m. ET, and to establish two other posting times at 1:00 p.m. ET and 5:30 p.m. ET.
3. Establish three principles for establishing future posting rules for the Reserve Banks' same-day ACH service:
 - 1) For each same-day ACH transmission deadline, Reserve Banks will establish expected distribution times for the same-day ACH files.
 - Reserve Banks will post settlement for same-day ACH debit transactions no earlier than 15 minutes after the Reserve Banks' expected distribution times for the associated same-day ACH file.
 - Reserve Banks will post settlement for ACH credit and debit transactions associated with a particular same-day ACH file distribution time at the same time.
 - 2) Reserve Banks will not post settlement for same-day ACH transactions between 6:30 p.m. and 8:30 a.m. the next processing day.
 - 3) Reserve Banks will post settlement for same-day ACH transactions exchanged with another operator to support universal same-day ACH during the operating hours for the Reserve Banks' National Settlement Service (NSS).

Background

Currently, commercial and government ACH credit transfers processed by the 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.

In 2008, the Board proposed changing the posting time for commercial and government ACH debit transfers from 11:00 a.m. ET to 8:30 a.m. ET to be simultaneous with the posting time for commercial and government ACH credit transfers. The Board chose not to implement this proposed change due to concerns expressed by ICBA and others.

The proposed PSR policy statement essentially reintroduces the 2008 proposal. The Board cited three changes that lessen the burden of the proposed PSR policy change.

- Interest on Federal Reserve account balances reduces institutions' costs of holding higher account balances overnight to fund an earlier posting of ACH debits.
- A March 2011 change to the PSR policy allows eligible institutions to

- collateralize their daylight overdrafts to reduce or eliminate any daylight overdraft fees associated with the proposed posting rule change.
- Additionally, institutions receive a \$150 fee waiver for each two-week reserve maintenance period, reducing the burden on institutions that incur small amounts of uncollateralized daylight overdrafts.

ICBA Comments

ICBA remains a constant and outspoken supporter of Federal Reserve taking steps toward a faster and more efficient payment system. In our comments to the Reserve Banks' *Payment System Improvement – Public Consultation Paper*, ICBA strongly applauded the Reserve Banks for recognizing that faster payments should be a priority for all financial institutions and encouraged the Reserve Banks to act quickly toward this goal. Therefore, ICBA applauds the Board for continuing to identify and propose PSR policy changes aimed at enhancing and improving the efficiency of the payment system.

Commercial and Government ACH Debit Transactions

ICBA supports the proposed change in posting time for commercial and government ACH debit transfers from 11:00 a.m. ET to 8:30 a.m. provided that 1) debits and credits are posted simultaneously, and 2) the excess balance account program remains in place.

In a June 13, 2008 comment letter on the 2008 proposal, ICBA expressed concern about the adverse impact of the proposed consolidated 8:30 am ET posting time for ACH debit and credit transactions on bankers' banks and the community banks they serve. Simultaneous posting of ACH credit and debit will lessen daylight overdraft concerns within many bankers' banks, as these institutions' balances would increase or decrease by only the net amount of funds from daily ACH settlements. If posting were not simultaneous, even if debits were posted briefly before credits, these institutions may incur a daylight overdraft.

The establishment of excess balance accounts (EBAs) under Regulation D (Reserve Requirements of Depository Institutions) does much to alleviate the concerns we articulated in 2008, by allowing bankers' banks and other institutions to earn interest, even if they have to maintain higher overnight balances. However, in the Board's analysis accompanying the May 2009 EBA Final Rule, the Board stated that it "will re-evaluate the continuing need for EBAs when more normal market functioning resumes." If the Board were to discontinue EBAs, bankers' banks would experience increased daylight overdrafts and would incur additional costs due to the inability of being able to earn interest on the higher balances required to cover

the earlier posting of ACH debits. It is imperative that the Board keep the EBA rule in place if ACH debits are posted simultaneously with ACH credits. Moreover, ICBA urges the Board to seek public comment in the event it decides to re-evaluate the continuing need for EBAs.

Commercial Check Transactions

ICBA also supports the proposed changes regarding commercial check transactions. Specifically, we support changing the posting time for receiving most credits for deposits and debits for presentments to 8:30 a.m. ET, and establishing two other posting times at 1:00 p.m. ET and 5:30 p.m. ET. The current posting times were designed for a paper-processing environment and do not begin crediting or debiting for check transactions deposited and presented until 11:00 a.m. ET.

ICBA concurs with the Board's analysis that the proposed changes would lead to additional efficiencies such as: earlier availability, earlier credit and adjustments, a reduction in the amount of intraday float and align the posting rules with the shift over the past decade to electronic check clearing.

Principles for Posting Rules for the Reserve Banks' Same-Day ACH Service

ICBA enthusiastically supports the three proposed principles regarding posting of the Reserve Banks' same-day ACH transactions. ICBA strongly supports same-day ACH and a migration toward faster payments, as advocated by our April 2013 white-paper: *Same Day ACH: An Opportunity for Leadership*.² ICBA applauds the Board for establishing these principles.

In closing, ICBA strongly believes that these proposed PSR policy statements take a positive step toward greater payment systems efficiency. ICBA encourages the Board, in concert with the Reserve Banks, to support the prompt, efficient, and near-real-time payment offerings needed in an interconnected marketplace.

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

Sincerely,

/s/

Cary Whaley
Vice President, Payments and Technology Policy

² <http://www.icba.org/files/ICBASites/PDFs/samedayACH.pdf>