

Docket No. OP-1515
Enhancements to Federal Reserve Bank Same Day ACH Service
Request for Comments

INTRODUCTION

BNY Mellon was founded in 1784, soon after the birth of the American republic. The company's history is inextricably woven into the broader history of the nation. Our company was the first corporate stock to be traded in 1792 when the New York Stock Exchange was formed, indelibly linking our history to that of the world's capital markets. The company was also the first financial institution to issue debt to the United States Government.

Today, BNY Mellon delivers informed investment management and investment services to institutions, corporations and individual investors and has \$26.3 trillion in assets under custody and/or administration and \$1.4 trillion in assets under management.

We are the 7th largest ACH Originator and 31st largest ACH receiver due to our wholesale only client base. We are the 3rd largest U.S. SWIFT participant and are the 5th largest in USD Wire transfer.

Being a part of shaping the future of the U.S. payments industry is important to BNY Mellon as is evidenced by our participation across several industry work groups including the Federal Reserve's Faster Payments Task Force and Secure Payments Task Force as well as The Clearing House's Real-Time Payments initiative. As such we provide the following comments to the Federal Reserve's Request for Comments on Docket No. OP-1515 for the proposed enhancements to the Federal Reserve Bank Same-Day ACH service.

COMMENTARY

We agree with the faster payments initiative in general and with the concept of Same Day ACH, believing that it offers many advantages for originators, receivers and financial institutions. With regard to the two specific items on which the Board requested comment:

A. Mandatory Participation of Receiving Depository Financial Institutions (RDFIs)

We agree that ubiquity is necessary in order to realize all of the Same Day ACH benefits outlined by the various use cases. We support the recommendation that receiving Same Day ACH items should be mandatory for all participating RDFIs.

B. Interbank Fee

We understand that the interbank fee was meant to compensate RDFIs for the work necessary in order to be able to process Same Day ACH transactions; however, we feel that it presents the possibility of an unintended negative effect on the competitive landscape among the providers of Same Day ACH services for the following reasons:

- **On-Us Activity**

As currently proposed, On-Us activity is not subject to the Same Day ACH interbank fee. Therefore, the larger receiving institutions that also originate, generally

concentrated in the top 4 NACHA volume banks, may receive a competitive advantage in offering Same Day ACH payments.

The banks with substantial receiving endpoints currently have a cost advantage because the network fee for their On-U's activity is not applied. This advantage can be used to offer lower fees in the marketplace versus banks that do not have a large receiving client base. While this advantage exists today with network fees, the proposed interbank fee is substantially higher and may add a significant impact to the balance of cost structures in providing the same day service. This significantly increases the cost benefit of high volume On-U's processing which may result in making it even more unlikely for competitors without large receiving customer bases to overcome the disparity between the banks that have a large receiving client base and those that do not.

- **Direct Send Activity**

The interbank fee may encourage increased activity of the direct exchange and settlement of transactions between financial institutions without the involvement of the network or operators for those banks that have large origination and customer receiving bases.

It may be advantageous for these banks to give up or reduce the interbank fees on received deposits bilaterally between large participants and use the lower cost structure to capture market share. They could then subsidize the loss of interbank fees from their direct send partnership with new same day origination volume that they can offer to clients at a lower cost.

We are of the opinion that this may put the rest of the ACH industry at a competitive disadvantage compared to those few banks that are engaged in this activity. Although the benefit between the direct send participants nets (provided they exchange equivalent volumes), both bilateral direct send participants can partially subsidize the origination costs and offer the same day service at a lower cost.

- **Variable Recovery Model for a Mainly Fixed Cost**

The interbank fee, meant to provide a cost recovery for RDFIs, is based on a variable cost recovery model as the amount an RDFI will recover is based purely on their received transaction volume. This model may result in the concentration of the recovery funds from the interbank fee at the few large RDFIs with the largest receiving customer base. We believe the majority of costs will be up-front and fixed investments, so this recovery model does not equally match the needs of participating RDFIs.

- **Cost for Industry Improvements**

Historically, costs for financial institutions to become compliant with new regulatory/industry standards have been accepted as the cost of doing business. We believe that the costs to receive Same Day ACH transactions should fall into this category.

SUMMARY

Based on the competitive advantages described above, it is BNY Mellon's view that large RDFIs may be disproportionately compensated for building the necessary capabilities required for Same Day ACH processing. The industry can expect the largest Originating Depository Financial Institutions (ODFIs) with large RDFI businesses to capture almost exclusively the Same Day ACH volume while traditional volumes will also become further concentrated by this advantage. So, in addition to creating a potential imbalance for Same Day ACH transactions, this could further impact the ability to compete in the next day ACH market.

In our experience, large volume ACH origination deals are won based on fractions of a cent in the pricing. Therefore, the savings from On-Us and direct send activity can often be the difference maker. In effect, the interbank fee model proposed essentially creates an "access" fee to network originators that they must pay in order to reach the accounts held at those top RDFIs, who are also almost always the top ODFIs.

In conclusion, the proposal may disproportionately compensate the few large receivers for the cost of establishing the service. This will likely lead to higher end user fees and potentially reduce the number of ACH service providers.

We recommend that the Fed proceed in offering a ubiquitous Same Day ACH service without the inclusion of the proposed interbank fee due to the reasons stated above.

We appreciate the opportunity to participate in this process and we are available for discussion of our comments in more detail.

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