SOUTHERN
FINANCIAL EXCHANGE

July 9, 2019

Ann E. Misback
Secretary, Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

Re: Potential Modifications to the Federal Reserve Banks' National Settlement Service and Fedwire Funds Service to Support Enhancements to the Same Day ACH Service and Corresponding Changes to the Federal Reserve Policy on Payment System Risk, Request for Comment (RFC) Docket No. OP - 1664

Dear Ms. Misback,

Southern Financial Exchange (SFE), a regional payments association with financial institution members in Alabama, Arkansas, Louisiana, Mississippi and Tennessee, welcomes the opportunity to respond to the Federal Register Notice regarding Potential Modifications to the Federal Reserve Banks' National Settlement Service and Fedwire Funds Service to Support Enhancements to the Same Day ACH Service.

Summary of RFC - The Reserve Banks settle ACH transactions by posting credits and debits to the sending and receiving banks' Federal Reserve accounts at the settlement time and date provided in the FedACH processing schedule. The current deadline for the afternoon window is early in the business day for ODFIs outside the Eastern time zone, reducing the ability of those financial institutions, originators, and end users to take full advantage of existing same day ACH services. The potential modifications addressed in Docket OP – 1664 is focused on whether the Reserve Banks should modify the operating hours to support a third same-day ACH processing and settlement window. Should this occur, the Fedwire Funds Service would also be impacted. Cutoff time for Fedwire would be extended by 45 minutes and the time frame between end of day and reopening of Fedwire would be reduced from 150 minutes to 120 minutes.

Feedback from a sampling of SFE members on this topic indicates strong support. SFE members may see a small increase in Same Day ACH volume and/or increased late afternoon wire volume should this proposal move forward; however, the impact will be significantly greater in Mountain and Pacific time zones. The ubiquity of the ACH Network makes enhancements to ACH more attractive for the majority of SFE members. The majority of member organizations do not see a significant impact to their operations as a result of a new late afternoon ACH window or to Fedwire.

This response letter addresses each of the questions asked in the RFC.

<u>**Responses to RFC Questions**</u>

1. **How might institutions and their customers use a later same-day ACH window?**
   Members of SFE primarily operate in the Eastern and Central time zones. As such, SFE members are likely to continue operating within existing timeframes with limited volume being submitted in the third ACH processing window. In some cases, internal risk process may be enhanced by offering additional time for review and shifting some volume from the second same-day window until the third window. It's also reasonable to expect that some financial institutions may use this new window as a competitive advantage.

   Since implementation, adoption of Same Day ACH functionality has not been limited to specific use cases. Virtually all types of ACH transactions have been used for same-day settlement.

2. **Would institutions and their customers use expanded hours of NSS and the Fedwire Funds Service for purposes unrelated to the later same-day ACH Window? If so, how?**
   Institutions with higher wire origination volumes (including those offering on-line wire origination capability) are more likely to use a later Fedwire deadline as a competitive advantage. This will enhance services that are available for the benefit of their customers/members.

3. **What increased risks and costs might your institution and customers incur as a result of reduced time between the closing of NSS, the Fedwire Funds third-party cutoff, and the closing of the Fedwire Funds Service?**
   As recognized by the RFC, compression of end-of-day activities does increase risk of more frequent delays to the reopening of Fedwire. However, as also pointed out in the RFC, the majority of the transactions settled in the first hour are in support of international markets. Because the majority of SFE members are community banks and credit unions, the anticipated risks to SFE members due to this compression are minimal. A few of our larger institutions may experience some delay, but SFE believes Federal Reserve is capable of managing this risk.

4. **What changes to internal processes or technologies (if any) would your institution need to make to adjust to and of the reduced windows as outlined in tables 1 and 2 in the RFC? Approximately how long would it take for your institution to implement any necessary changes?**
   With regard to Fedwire, most SFE members are not expected to market or expand existing Fedwire deadlines. Hence, no changes are expected for the majority of SFE members.

5. **If your institution typically makes payments during the first hour of the Fedwire Funds Service business day, what would be the consequences of delaying the reopening of the Fedwire Funds Service? Are the consequences more significant for certain types of payments? Are there steps your institution, the Reserve Banks, or others could take to reduce those consequences?**
   No significant consequences are anticipated. Automated standing transfers are the most likely payment type depending on how and when these entries are created by the financial institution. However, the risk would be the same as it is today.

6. **How might the proposed compressed end-of-day timeline increase the frequency with which institutions request that the Reserve Banks extend the operating hours of the Fedwire Funds Service?**
   With regard to Fedwire, most SFE members are not expected to market the expanded wire deadlines. Hence, no extensions of the operating hours are expected for the majority of SFE members.

7. **Should the Reserve Banks update their criteria for extending the closing time of the Fedwire Funds Service to include a higher value threshold? If so, would a $5 billion threshold be appropriate? Would your institution need to make any operational changes to adjust to a $5 billion threshold?**
   With regard to Fedwire, the existing dollar threshold for granting Fedwire extensions and the minimum time required between closing and re-opening Fedwire have not been revisited since 2002. Reassessment of these criteria is inevitable as dictated by changes in demand for these transactions and growth in the economy. Most SFE members are not expected to make any operational changes to accommodate these changes.

8. **Should the Reserve Banks update their criteria for extending the closing time of the Fedwire Funds Service to reduce the targeted two-hour window between the closing and reopening of the Fedwire Funds Service? Why or why not? Would a window of 90 minutes (or some other period) between the closing and reopening of the Fedwire Funds Service provide sufficient time to perform end-of-day processes at your institution? What operational or technical changes would your institution need to make (if any) to adjust to a reduced window?**
   No significant changes are anticipated as most SFE members are not expected to market the expanded wire deadlines. However, competition and demand certainly could generate future changes. Since the Federal Reserve pays a competitive rate on funds maintained at the Federal Reserve, most Federal Reserve account holding SFE members leave the money in their Federal Reserve account. Those that use a correspondent agent have earlier deadlines imposed by those agents than those proposed by the RFC. Therefore, the extended deadlines should have little effect on SFE members.

9. **Given the risks of more-frequent delays to the reopening of the Fedwire Funds Service, should the Federal Reserve simultaneously raise the value threshold for extensions to $5 billion and reduce the window between the closing and reopening of the Fedwire Funds service? Why or why not?**
   With regard to Fedwire, competitive situations and demand will dictate whether SFE members will market the expanded wire deadlines. Same Day ACH and the growth of other Faster Payment solutions currently being introduced may negatively impact Fedwire volume over the next decade. The anticipated risks to SFE members from raising the threshold or compression of the window are minimal.

10. **If your institution would need to implement changes to adjust to a $5 billion threshold or a reduced window between the closing and reopening of the Fedwire Funds Service, when would your institution be ready to implement those changes? If your institution is not ready to implement any required changes by March 2021, which is NACHA's current effective date for implementing the later same-day ACH window, should the Federal Reserve delay implementation of the proposed changes to NSS and the Fedwire Funds Service? Why or why not?**

With regard to Fedwire, most SFE members are not expected to market expanded wire deadlines. Hence, a March 2021 implementation date is satisfactory. However, uncertainty caused by the delay in issuing this RFC may have delayed any required commitment of resources to research potential impacts. We encourage the Fed to act promptly to provide any impacted institutions time to react.

11. **Are there any other potential benefits, consequences, risks, or costs that the Federal Reserve should consider when evaluating the adoption of the proposed changes to NSS and the Fedwire Funds Service, including potential risks to financial stability? If so, please provide a description.**
    The main concerns voiced within the RFC by the Fed appears to be the impact to the National Settlement Service and potential risks to Fedwire. The check processing and ACH processing systems have or are currently going through a period of extensive modernization. While SFE and SFE members don't have an extensive knowledge of NSS, it appears that NSS may be past due for modernization as well. We encourage the Federal Reserve to consider modernization efforts that ultimately move NSS to support a 24/7/365 environment.

    Would it be possible to settle the high volume of international market transactions independently from ACH and other Wire activity to reduce risk?

    A reasonable assumption is that implementation of a new late afternoon ACH window will actually reduce counter-party risk, credit risk, operational risk and return item risk within the ACH Network by supporting later clearing positions.

On behalf of Southern Financial Exchange and our members, thank you for this opportunity to respond and for the consideration of these comments.

Respectfully submitted,

Donald S Jackson

Donald S Jackson
President & CEO
Southern Financial Exchange
djackson@sfe.org

/s/
Randall Reid, AAP
IT Security & Operations Officer
Bank of Abbeville & Trust Company

/s/
Kelly Kiker
SVP & Director of Operations
BankPlus

/s/
Jim Chaffin
CFO, EVP Operations
Bank of St Francisville

/s/
E.P. Morgan
SVP, Sales Manager Treasury Management
BancorpSouth Bank

/s/
Ean Colley
VP, Bank Operations Manager
Evolve Bank & Trust Company

/s/
Janiece Wright, AAP
SVP and Manager of Treasury Services
First Citizens National Bank

/s/
Jim Fazende
Chief Operating Officer
First Federal Bank of LA

/s/
BJ Cooley
AVP & Operations Officer
First State Bank

/s/
John R. Connelly, AAP
SVP, Treasury Management Operations
Hancock Whitney Bank

/s/
Bryan Rowell
SVP & Director of Bank Operations
Home Bank

/s/
Sherrie Klotz, AAP
Chief Administrative Officer
Louisiana Corporate Credit Union

/s/
Steven R. Sullivan, AAP, CBAP
Assistant Vice President
Metairie Bank

/s/
Floyd J. Brummett
VP, Information Technology and Payments
Orion Federal Credit Union

/s/
Brenda H. Eldridge, CPA
EVP & CFO
Partners Bank

/s/
Ryan Haydel, AAP
SVP, Deposit Services & eServices
Pedestal Bank

/s/
Jimmy Gammill
EVP & CIO
Planters Bank

/s/
Pamela P. Ware
Director of Operational Process & Efficiencies
Renasant Bank

/s/
Tim Clements
SVP, Cash Management
Triumph Bank

/s/
Nick Anderson
SVP & Director, Bank Operations
Trustmark Bank

/s/
Janine W. D'Avy, AAP
VP, Electronic Services
United Mississippi Bank