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July 15, 2019

*Via Electronic Submission*

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

Re: **Docket No. OP-1664; 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 Comments**

Dear Ms. Misback:

TD Bank, N.A. ("TD Bank")<sup>1</sup> appreciates the opportunity to provide comments to the Board of Governors of the Federal Reserve System ("Board") in response to its request for comment ("Request") on potential changes to the National Settlement Service ("NSS") and Fedwire Funds Service ("Fedwire") operating hours.

## **I. Background**

There are currently three ACH processing and settlement windows—one that allows for next-business day processing and settlement, and two same-day processing and settlement windows.<sup>2</sup> The NACHA voting membership approved an additional same-day ACH processing and settlement window—with an afternoon submission deadline of 4:45 pm. (ET) and settlement at 6:00 p.m. (ET)—contingent on the Reserve Banks extending the operating hours of NSS and Fedwire. In the Request, the Board seeks comments on potential modifications to the Federal

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<sup>1</sup> TD Bank, America's Most Convenient Bank, is one of the 10 largest banks in the U.S., with over 27,000 employees and deep roots in the community dating back more than 150 years. TD Bank offers a broad array of retail, small business and commercial banking products and services to more than 9 million customers through our extensive network of approximately 1,250 retail stores through the Northeast, Mid-Atlantic, Metro D.C., the Carolinas and Florida.

<sup>2</sup> With respect to the two same-day ACH windows, the first has a 10:30 a.m. (ET) submission deadline and a 1:00 p.m. settlement and the second has a 2:45 p.m. (ET) submission deadline and a 5:00 p.m. (ET) settlement.

Reserve Banks' ("Reserve Banks") payments services to facilitate adoption of a later same-day automated clearinghouse ("ACH") processing and settlement window. Specifically, the Reserve Banks would: (1) extend NSS operating hours by moving the closing from 5:30 to 6:30 p.m. (ET); (2) extend Fedwire closing by 30 minutes from 6:30 p.m. to 7:00 p.m. (ET); and (3) extend the cutoff time for Reserve Bank accountholders to initiate transfers on behalf of third parties via Fedwire (the "third-party cutoff") by 45 minutes, from 6:00 p.m. (ET) to 6:45 p.m. (ET). The Board would also make changes to the Federal Reserve's Payment System Risk Policy to account for the this third same-day ACH settlement window as well as an increase to the daylight overdraft fee rate.

TD Bank understands that the Board is not at this time directly addressing comments it received in response to its October 2018 request for public comment on *Potential Federal Reserve Action to Support Interbank Settlement of Faster Payments*. The Request is narrowly focused on whether the Reserve Banks should modify the operating hours for their wholesale services to support a third same-day ACH processing and settlement window. Accordingly, TD Bank's response is similarly limited and does not address other potential actions by the Board or the Reserve Banks relating to payment and settlement services.

## **II. Introduction and Overview of TD Bank's Comments**

TD Bank is a significant participant in U.S. wholesale and retail payment systems. For example, in 2018, we were the sixth largest ACH receiver, and the thirty-sixth largest ACH originator. Annually, we process approximately 650 million checks, with a total value of approximately \$800 billion. Our total annual inbound and outbound wire activity is approximately 3.5 million wire transfers, with a total value of more than \$1 trillion. Among other things, TD Bank also offers its customers convenient payment-related services such as remote deposit capture, person-to-person payments (through Zelle®) and bill pay. Our customers are at the heart of everything we do, and our products and services are designed to make it easy for them to bank with us—when and how they want.

In addition, TD Bank has actively supported faster payments initiatives in the United States. We participated actively in the Faster Payments Task Force, including by holding a seat on the Steering Committee and participating on the Editorial Board. We also have an active project to connect to and participate in the Real Time Payments ("RTP") Network during 2019. Moreover, as an equity member of TCH, TD Bank has already made a significant investment to build the core of the RTP Network, and we anticipate additional future investments to expand the system's capabilities.

Within TD Bank, we have committed to a significant investment for the first phase of our RTP Network implementation, and we expect incremental expenses of a similar or larger nature in a subsequent phase. With respect to ACH in particular, we have made significant investments to enable same-day ACH capabilities for our customers. As such, TD Bank has demonstrated its commitment to promote faster payment capabilities within the bank and in the United States more broadly, and TD Bank supports the Board's efforts to promote the same by adding an additional same-day ACH window.

As described in more detail below, TD Bank strongly supports the Request to allow for a third same-day ACH processing and settlement window. TD Bank believes that adding a third same-day window is a meaningful step toward improving the speed and efficiency of the U.S. payments systems.<sup>3</sup>

### III. Discussion

Because the Board views the potential modifications to operating hours for NSS and Fedwire as major service enhancements, they must meet the following three criteria: (1) the Federal Reserve must expect to achieve full recovery of costs over the long run; (2) the Federal Reserve must expect that its providing the service will yield a clear public benefit; and (3) the service should be one that other providers alone cannot be expected to provide with reasonable effectiveness, scope, and equity.

With respect to these criteria, (1) TD Bank accepts the Board's assertion regarding cost recovery; (2) while we understand that the later hours place an additional operational burden on some financial institutions, we believe the risks can be mitigated and overall that the proposed changes will yield a clear public benefit and are in the best interest of the continued evolution of the U.S. payment system; and (3) other providers alone could not provide the enhanced services with reasonable effectiveness, scope, and equity without introducing significant changes and risks into the market.<sup>4</sup>

**As one of the largest ACH receivers in the country, TD Bank believes that there is significant public benefit to an expanded ACH service**

TD Bank agrees that the proposed changes to existing Federal Reserve services set forth in the Request would yield a clear public benefit, as they would expand access to and adoption of same-day ACH, which would allow both consumers and businesses to send and receive same-day payments during a later processing and settlement window.<sup>5</sup> Among other things, the third same-day window will further enable consumers and businesses to make time-sensitive payments and receive faster crediting of such payments. The expansion is also likely to contribute to further growth of same-day ACH volumes and the ACH network. The third same-day ACH window would be especially beneficial for west coast financial institutions and their

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<sup>3</sup> TD Bank also noted, in our December 14, 2018 response to the Board's request for comment on *Potential Federal Reserve Action to Support Interbank Settlement of Faster Payments*, that "modernizing NSS and expanding its operating hours may be useful to faster payments services provided via ACH or other future private-sector arrangements involving settlement groups."

<sup>4</sup> There currently is no private sector provider of multilateral settlement services of the type offered by the Reserve Banks.

<sup>5</sup> TD Bank believes that the additional window would promote the integrity of the payment system, improve the effectiveness of financial markets and reduce the risk associated with ACH payments (including credit and liquidity risk) by allowing significant additional volumes of payments to be made after the existing second ACH window and prior to the next business day.

customers, which currently can only make use of same-day ACH until the existing 2:45 p.m. (ET) / 11:45 a.m. (PT) processing deadline. The current timing makes it impractical for many TD Bank customers who live outside of our footprint (as well as customers of west coast financial institutions) to utilize same-day ACH given the time difference and deadlines banks set for their customers, which are generally earlier than ACH Operators' processing cutoffs. The changes would provide these customers with new options to utilize same-day ACH capabilities later in the day in connection with all eligible transactions but would be particularly helpful for customers and businesses with time-sensitive payments, such as urgent bill payment, emergency payroll, business-to-business transactions, account-to-account transfers, and person-to-person payments.

The third same-day ACH window would also have a significant positive effect on TD Bank's east coast customers. Since the inception of same-day ACH transactions, TD Bank customers have found value in the ability to make or receive same-day payments. TD Bank expects significant utilization of the third same-day ACH window by our customers, especially as our ACH volumes continue to grow. As a receiver, TD Bank expects that our customers will receive a significant benefit from this additional window because it will increase the probability that our customers will receive same-day ACH transactions from consumers and businesses.

The Board's potential changes would also directly impact TD Bank's ability to support additional wire transfers on behalf of itself and its customers.<sup>6</sup> Should the Federal Reserve make the proposed changes to Fedwire settlement times, we would evaluate our Customer's interest in having Fedwire access extended beyond our current cut-offs.

In sum, the changes to NSS and Fedwire to support the third same-day ACH window would provide customers of all financial institutions (including TD Bank) new options for utilizing same-day ACH capabilities later in the day and support further enhancement of the U.S. payments system and the expansion of faster payments. Same-day ACH has already proven to provide value to participants and NSS/Fedwire support for the NACHA approved third same-day ACH window will only expand the benefits currently being realized.

**TD Bank believes that end-of-day compression risks can be mitigated and are outweighed by the benefits of expanded same-day ACH hours**

The risks associated with such end-of-day compression were well-articulated and understood by the industry as part of the NACHA rulemaking process. TD Bank believes that the strong support for the third same-day ACH window from financial institutions of all sizes demonstrates that, on balance, the industry considers the end-of-day compression risk small in comparison to the benefits of expanded same-day ACH hours (as explained above). TD Bank expects to be able to appropriately manage and mitigate its risks, though we encourage the Board to continue to monitor these risks for the industry as the U.S. payment system evolves. Additionally, notwithstanding the risks, TD Bank finds compression to ultimately be a good thing as it moves the needle forward and brings the US payments system closer to faster and real

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<sup>6</sup> TD Bank has countless real-life examples of our customers being negatively impacted by their inability to send and receive wires later in the day (such as title companies at the closing table).

time payments. The Federal Reserve has rightfully been a proponent of this move and it makes sense for the Board to align its services with the evolving industry standard.

Finally, TD Bank will be able to accommodate the modified NSS and Fedwire operating hours described in the Request and expects to be able to do so by March 2021, when the third same-day ACH window is scheduled to take effect.

**TD Bank believes that the potential Fedwire reopening delays can be mitigated by increasing the threshold for extensions and reducing the two-hour window between the closing and reopening of the Fedwire from two hours to ninety minutes.**

TD Bank supports changes to Fedwire policies and practices that would reduce the risk of frequent delays to Fedwire reopening. Delayed reopening of Fedwire would disrupt the flow of large value payments supporting activity in domestic and international markets, and adversely impact the ability of U.S. depository institutions operating in those markets to meet their customers' payment needs. As such, TD Bank supports reducing the two-hour window between the closing and reopening of Fedwire as a control to reduce the risk of frequent delays to Fedwire reopening.

TD Bank also supports raising the dollar threshold for Fedwire extensions because of the concern that failing to raise the dollar threshold could lead to an increase in Fedwire reopening delays if the Board changes Fedwire operating hours as proposed. TD Bank, however, does not take a position on whether the current \$1 billion value threshold should be increased to \$5 billion or some lower amount (e.g., \$2 billion). Neither threshold is likely to have a material impact on TD Bank in the near term. As noted above, however, TD Bank's volumes continue to grow and our needs may change in the future.

If the Board approves the proposed changes to Fedwire operating hours, we encourage the Board to closely monitor the frequency of extension requests and Fedwire reopening delays that occur after the new timing takes effect and consider additional policy and practice changes if there is a notable increase. We would also encourage all Reserve Banks to consider the disruption Fedwire reopening delays have when determining whether to grant Fedwire extensions.

### **TD Bank Supports Changes to the Federal Reserve's Payment System Risk Policy**

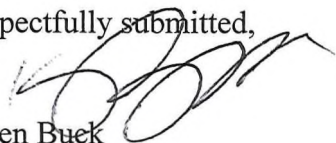
The Board would also make changes to the Federal Reserve's Payment System Risk Policy to account for the third same-day ACH settlement at 6:00 p.m. and adjust the approach for calculating fees for daylight overdrafts, which is based on the length of the Fedwire operating day.

TD Bank supports these proposed corresponding changes to the Payment System Risk Policy.

\* \* \* \*

We appreciate the opportunity to comment on the Request. If you have any questions, or wish to discuss this letter, please do not hesitate to contact the undersigned.

Respectfully submitted,

A handwritten signature in black ink, appearing to be 'KB', written over the closing text.

Karen Buek

Head of Commercial, Retail & Payment Operations