

FEDERAL RESERVE SYSTEM

12 CFR Chapter II

[Docket No. OP-1544]

Federal Reserve Policy on Payment System Risk; Procedures for Measuring Daylight Overdrafts

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Policy statement.

SUMMARY: The Board of Governors of the Federal Reserve System (Board) has revised part II of the Federal Reserve Policy on Payment System Risk (PSR policy) related to the procedures for measuring balances intraday in institutions' accounts at the Federal Reserve Banks (Reserve Banks) to conform with enhancements to the Reserve Banks' same-day automated clearinghouse (ACH) service previously approved by the Board.

DATES: *Effective Date:* September 23, 2016.

FOR FURTHER INFORMATION CONTACT:

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SUPPLEMENTARY INFORMATION:

Background

The Board's PSR policy establishes the procedures, referred to as posting rules, for the settlement of credits and debits to institutions' Federal Reserve accounts for

different payment types.¹ The application of these posting rules determines an institution's intraday account balance and whether it has incurred a negative balance (daylight overdraft).

As announced on September 23, 2015, the Board approved enhancements to the Reserve Banks' FedACH[®] SameDay Service (FedACH SameDay Service) effective September 23, 2016.² The enhancements are intended to align the Reserve Banks' existing opt-in same-day ACH service with amendments to NACHA's Operating Rules and Guidelines.³ Under the newly enhanced Reserve Bank service, all receiving depository financial institutions will be required to participate in same-day ACH, and originating depository financial institutions will be required to pay a fee to receiving depository financial institutions for each same-day ACH forward transaction. The NACHA amendments, as incorporated into the Reserve Bank Operating Circulars, will become effective in multiple phases, beginning with same-day credit and return transactions this September and followed by same-day debit transactions in September 2017. Upon implementation of the first phase, the Reserve Banks' current opt-in same-day ACH service will cease to exist and will be supplanted by the newly-enhanced same-day service. The PSR policy's posting rules for forward and return same-day ACH transactions are being updated to conform to the Reserve Banks' new FedACH SameDay Service, effective September 23, 2016.

¹ The Board's PSR policy is available at www.federalreserve.gov/paymentsystems/psr_policy.htm.

² 80 FR 58248 (Sep. 28, 2015).

³ NACHA, whose membership consists of insured financial institutions and regional payment associations, establishes network-wide ACH rules through its Operating Rules & Guidelines. As an ACH operator, the Reserve Banks, through Operating Circular 4, incorporate NACHA's Operating Rules & Guidelines as rules that govern clearing and settlement of commercial ACH items by the Reserve Banks, except for those provisions specifically excluded in the Operating Circular.

Under the Reserve Banks' current same-day ACH service, credits and debits for forward same-day ACH transactions post at 5:00 p.m.⁴ Beginning September 23, 2016, credits and debits for same-day ACH credit transactions will post at 1:00 p.m. or 5:00 p.m., depending on when the ACH file is received by the Reserve Banks for processing. Forward ACH debit transactions will be eligible to settle same-day beginning September 15, 2017, as part of the implementation of the second phase of the NACHA rule amendments, and credits and debits for same-day ACH debit transactions will post according to the same posting rules as same-day ACH credit transactions.⁵ The posting of future-dated ACH forward transactions will not be affected, and credits and debits for these transactions will continue to post at 8:30 a.m. on the effective settlement date.

The approved enhancements effective this September also alter the settlement of ACH return items processed by the Reserve Banks. Under the current posting rules, credits and debits for returns of future-dated and same-day ACH forward items post either at 8:30 a.m. or in the afternoon at 5:00 p.m. and 5:30 p.m., respectively, with the specific posting time determined by when the item is received by the Reserve Banks. Effective September 23, 2016, all ACH return items, regardless of whether the associated forward item was future-dated or same-day, will post at the next available posting time or following the settlement of the associated forward transaction. Thus, credits and debits

⁴ All times are eastern time.

⁵ Enhancements to the Reserve Banks' same-day ACH service will alter treatment of check truncation items that settle through FedACH. A check truncation item is a check that has been converted into an ACH debit entry for presentment and settlement over the ACH network based on an agreement between the collecting and paying banks. Under the current posting rules, check truncation transactions post at 5:00 p.m. on the current business day. Beginning September 23, 2016, check truncation transactions will post at the same time as other ACH debit transactions at 8:30 a.m. on the next business day and will post either next-day or same-day, as appropriate, beginning with phase two of the NACHA rule amendments. At this time, the Reserve Banks do not have any volume associated with check truncation items.

for return items will post at 8:30 a.m., 1:00 p.m., 5:00 p.m., or 5:30 p.m., with the specific posting time determined by when the item is received by the Reserve Banks.⁶

Policy on Payment System Risk

The Federal Reserve Policy on Payment System Risk, section II.A, under the heading “Procedures for Measuring Daylight Overdrafts” and the subheadings “Post at 8:30 a.m. eastern time,” “Post at 1:00 p.m. eastern time,” “Post at 5:00 p.m. eastern time,” and “Post at 5:30 p.m. eastern time,” is amended as follows:

Post at 8:30 a.m. eastern time:

- +/- Term deposit maturities and accrued interest
- +/- Government and commercial ACH transactions, including return items⁷
- +/- Commercial check transactions, including returned checks⁸
- + Treasury checks, postal money orders, local Federal Reserve Bank checks, and savings bond redemptions in separately sorted deposits; these items must be deposited by the latest applicable deposit deadline preceding the posting time

⁶ Paper returns, FedLine Web returns, paper notifications of change (NOCs) and FedLine Web NOCs will only be processed twice daily at 2:15 a.m and 2:45 p.m. As such, these transactions will post at 8:30 a.m. or 5:00 p.m., depending on when the item is received by the Reserve Banks.

⁷ Institutions that are monitored in real time must fund the total amount of their commercial ACH credit originations in order for the transactions to be processed. If the Federal Reserve receives commercial ACH credit transactions from institutions monitored in real time after the scheduled close of the Fedwire Funds Service, these transactions will be processed at 12:30 a.m. the next business day, or by the ACH deposit deadline, whichever is earlier. The Account Balance Monitoring System provides intraday account information to the Reserve Banks and institutions and is used primarily to give authorized Reserve Bank personnel a mechanism to control and monitor account activity for selected institutions. For more information on ACH transaction processing, refer to the ACH Settlement Day Finality Guide available through the Federal Reserve Financial Services website at <http://www.frbservices.org>.

The federal government will not participate in the same-day ACH upon initial implementation in September 2016. ACH forward transactions originated or received by the federal government will not be eligible for same-day settlement and will settle on the next business day, or on a future date as indicated by the effective settlement date.

⁸ For the three commercial check transaction posting times, the Reserve Banks will post credits and debits to institutions' accounts for checks deposited and presented, respectively, at least 30 minutes before the posting time.

- + Advance-notice Treasury investments
- Penalty assessments for tax payments from the Treasury Investment Program (TIP)⁹

Post by 1:00 p.m. eastern time:

- +/- Commercial check transactions, including returned checks
- +/- FedACH SameDay Service transactions, including return items
- + Same-day Treasury investments

Post at 5:00 p.m. eastern time:

- +/- FedACH SameDay Service transactions, including return items¹⁰
- + Treasury checks, postal money orders, and savings bond redemptions in separately sorted deposits; these items must be deposited by the latest applicable deposit deadline preceding the posting time
- + Local Federal Reserve Bank checks; these items must be presented before 3:00 p.m. eastern time

Post at 5:30 p.m. eastern time:

- +/- FedACH SameDay Service return transactions
- +/- Commercial check transactions, including returned checks

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By order of the Board of Governors of the Federal Reserve System, acting through the Director of the Division of Reserve Bank Operations and Payment Systems under delegated authority, July 18, 2016.

Robert deV. Frierson (signed)

Robert deV. Frierson,
Secretary of the Board.

⁹ The Reserve Banks will identify and notify institutions with Treasury-authorized penalties on Thursdays. In the event that Thursday is a holiday, the Reserve Banks will identify and notify institutions with Treasury-authorized penalties on the following business day. Penalties will then be posted on the business day following notification.

¹⁰ Paper returns, FedLine Web returns, paper notifications of change (NOCs), and FedLine Web NOCS will only post at 8:30 a.m. and 5:00 p.m., depending on when the item is received by the Reserve Banks.