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LOUISE L. ROSEMAN
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DIVISION OF
RESERVE BANK OPERATIONS
AND PAYMENT SYSTEMS

February 6, 2015

Ms. Janet Estep
President and Chief Executive Officer
NACHA – The Electronic Payments Association
2550 Wasser Terrace, Suite 400
Herndon, Virginia 20171

Dear Janet:

Thank you for the opportunity to comment on NACHA's proposal to facilitate a ubiquitous same-day ACH service.

The Federal Reserve shares NACHA's interest in a successful same-day ACH service and broadly supports the objectives of the current proposal. As described in the Federal Reserve's recently released *Strategies for Improving the U.S. Payments System*, the Federal Reserve believes that the U.S. payment system is at a critical juncture in its evolution and encourages industry efforts to improve the payment system through ubiquitous, safe, and fast electronic solutions that meet the needs of financial institutions and end users. The Federal Reserve views the promotion of greater use of same-day ACH capabilities and the movement towards a ubiquitous same-day ACH environment as important components of a broader initiative to modernize and improve the U.S. payment system.

We agree with NACHA's assessment that, at this stage, mandatory participation by receiving depository financial institutions (RDFIs) in a same-day service is likely to be critical to the service's success. Businesses and consumers should benefit from a ubiquitous same-day ACH capability. The negligible take-up of the opt-in same-day FedACH service offered by the Reserve Banks highlights the coordination problems among participants that can hinder adoption.

We have concerns, however, about several aspects of the proposed interbank fee paid by originating depository financial institutions (ODFIs) to RDFIs for each same-day ACH transaction. NACHA proposed the interbank fee as a mechanism for ODFIs to compensate RDFIs for various costs that RDFIs might incur through their participation in same-day ACH.

1. **The perspectives of same-day ACH originators should weigh heavily in the determination of the interbank fee as the proposal is refined prior to being brought to a vote.** An interbank fee would generally be borne by the originators of same-day ACH transactions, by setting the floor on the amount they are charged for access to the same-day service, just as interchange fees generally set the floor on fees charged by acquirers to merchants. Support for the interbank fee by large banks, which are net ACH originators, is indicative that the fee would not be internalized by ODFIs but rather passed along to the originators. Because end users do not have a direct voice in the NACHA voting process, it is critical that NACHA seek out their views on an interbank fee and have those views help shape the final proposal.
2. **We are concerned with the definition and determination of allowable costs for the proposed interbank fee.** Particularly problematic, from our perspective, is NACHA's inclusion of "opportunity costs" in the fee calculation, which reflect profits lost by RDFIs if some transactions migrate to same-day ACH from other higher-margin payment methods, such as wire transfers. To the extent that the opportunity costs reflect mark-ups on existing payment methods, the inclusion of these costs in the calculation of the interbank fee effectively transfers those high mark-ups to same-day ACH transactions at the expense of end users. We have similar concerns about the inclusion of a "risk adjusted fair rate of return" in the interbank fee.
3. **The proposed interbank fee will likely inhibit the usage of the same-day ACH service, and therefore payments system efficiency.** Through its effect on fees to originators, the interbank fee will likely reduce usage of the same-day ACH service from what it would be absent a fee, and ultimately limit the benefits that end users derive from it.

We recognize NACHA's efforts to address in its proposal certain concerns we had raised about interbank fees, and in particular the tendency for such fees to increase over time. We are concerned, however, that the proposed periodic check-points may not be sufficient to preclude any subsequent increase in the fee level.

The Retail Payments Office has provided additional comments on NACHA's proposal. We have not repeated those comments here, but fully support them.

In closing, the Federal Reserve appreciates NACHA's efforts on this important initiative. We believe that the ACH system has long provided individuals, businesses, and other organizations with a safe, efficient, and low-cost method for affecting various types of payments. We agree with NACHA that current ACH services should be enhanced to allow for expedited processing and settlement of ACH transactions. This ACH enhancement, which may require strategic investments by financial institutions, service providers, and other market

participants, is an important component of broader improvements we are seeking to the U.S. payments system.

Sincerely,

A handwritten signature in cursive script that reads "Louise".

c: Michael Herd, Managing Director, ACH Network Rules, NACHA
Jane Larimer, General Counsel, NACHA
Marie Gooding, First Vice President and Retail Payments Product Director, FRB Atlanta
Cheryl Venable, Senior Vice President and Retail Payments Product Manager, FRB Atlanta
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