



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, DC 20551

DIVISION OF RESERVE BANK
OPERATIONS AND PAYMENT SYSTEMS

December 13, 2024

Ms. Jane Larimer
President and Chief Executive Officer
Nacha – The Electronic Payments Association
11951 Freedom Drive, Suite 1001
Reston, Virginia 20190

Dear Jane:

Thank you for the opportunity to comment on Nacha's October 8, 2024, proposal to add a fourth same-day ACH processing window. The Board of Governors of the Federal Reserve System (Board) has long shared Nacha's interest in a successful ACH service, an important component in the U.S. payment system for batched, recurring payments, and has appreciated many opportunities over the years to collaborate in advancing that objective. However, Board staff believes a fourth Same Day ACH processing window Monday through Friday (aligned with the close of the business day in the Pacific Time Zone) potentially introduces significant risks, including by creating resource contention that could diminish the ability of both the public- and private-sectors to advance other key payment system priorities.

First, Board staff believe there is significant credit risk created by a proposed fourth same-day ACH processing window on Friday evenings. Banks would be required to make funds available to recipients on Friday but would not receive settled funds from sending banks until Sunday evening at the earliest when interbank settlement services open. Settlement may be further deferred until Monday night in the event of a Monday bank holiday. Given the welcome and continued growth of same-day ACH and the ACH network more broadly, we believe this proposal would create unnecessary credit risk. Currently, individual institutions may choose, based on their own risk assessment, to provide funds in advance of settlement. However, this proposed change would be a mandatory, network-level requirement that would not allow institutions to make risk-based decisions about providing (or not providing) funds prior to settlement.

Second, it is not apparent to Board staff that the potential limited benefits of a fourth window would outweigh the additional risks and burdens the additional window would create. The mandatory nature of Nacha's proposal would require banks to invest additional resources without the ability to appropriately consider the costs and benefits to their

particular institution, including requiring night and weekend staff and IT coverage, accounting changes, and further IT or core infrastructure investments. Third, deferred settlement over the weekend would create liquidity management burdens, which may have outsized effects on smaller financial institutions that may not have readily available access to weekend liquidity. The 10 pm ET window Monday through Thursday also may place strains on financial institutions' liquidity and pose additional risks that need to be further considered.

For these reasons, if the current proposal or any similar proposals were to be adopted, the Federal Reserve would need to give serious consideration to these implications for the full set of payment system stakeholders. A fourth same-day ACH processing window could have significant longer-run effects for the nation's payment system, including diminishing the capacity of participants to advance other priorities, and thus the Board would likely need to seek public comment before the Federal Reserve is able to commit to any additional same-day windows, as was the case with previous expansions of same day ACH.¹

Finally, Board staff is concerned with the Federal Reserve undertaking another major initiative given a number of high-priority initiatives already underway. The Federal Reserve is currently pursuing other efforts to enhance payment and settlement services to support improvements in the speed, safety, and efficiency of the U.S. payment system that we believe would likely provide greater benefits for the payment system than the addition of a fourth same-day ACH window at this juncture. For example, the Board is focused on achieving ubiquity for instant payments in the United States to bring the value of instant payments to the economy, such as by providing individuals and businesses the flexibility to manage their money and make time-sensitive payments whenever needed. Given the infancy of instant payments in the United States, achieving ubiquity is a priority. In addition, the Board is currently in the process of considering public comments on expanded hours for Federal Reserve wholesale services.

In conclusion, Board staff believe that the ACH network, and current same-day ACH windows, provide individuals, businesses, and other organizations with a safe, efficient, and cost-effective option for batched, recurring payments. However, for the reasons explained in this letter, Board staff does not support a fourth same-day ACH settlement window for the Reserve Banks' FedACH service.

Sincerely,



Matthew J. Eichner
Director

cc: Michael Herd, Executive Vice President, ACH Network Administration, Nacha
Mark Gould, Chief Payments Executive, Federal Reserve Financial Services (FRFS)
Shonda Clay, Executive Vice President, Chief Product and Relationship Officer, FRFS
Susan Foley, Deputy Director, Federal Reserve Board of Governors
Ian Spear, Deputy Associate Director, Federal Reserve Board of Governors

¹ While not as significant, revisions to existing Board policies, such as the Federal Reserve Policy on Payments System Risk, would also be necessary, with subsequent adjustments by private-sector financial institutions.