



Expanding Same Day ACH

*NACHA Request for Comment
December 1, 2017*

Expanding Same Day ACH - Introduction

- NACHA invites comments on proposed rules to expand Same Day ACH. Currently, Same Day ACH is available as an option to move payments faster for most ACH credits and debits
- Today, NACHA is issuing this Request for Comment to generate feedback on proposals to:
 - Add a third Same Day ACH processing window later in the day
 - Provide faster funds availability for both Same Day and non-Same Day ACH credits
 - Raise the per-transaction dollar limit on Same Day ACH Entries
- In addition, NACHA requests feedback from the industry on the potential benefits and impacts of ACH processing on weekends and holidays
- The first three topics are proposals to amend the *NACHA Operating Rules*, and NACHA is accepting comments on them through Friday, January 26, 2018. The fourth topic is a Request for Information to explore the industry's interest and thinking; responses on that topic are requested by Friday, February 23, 2018.
- NACHA encourages responses from all ACH Network participants and interested parties. For more information about the proposed rules and how to submit comments, please visit www.nacha.org.

Same Day ACH Implementation – Through Phase 3

- The current Same Day ACH implementation schedule will be complete as of March 16, 2018

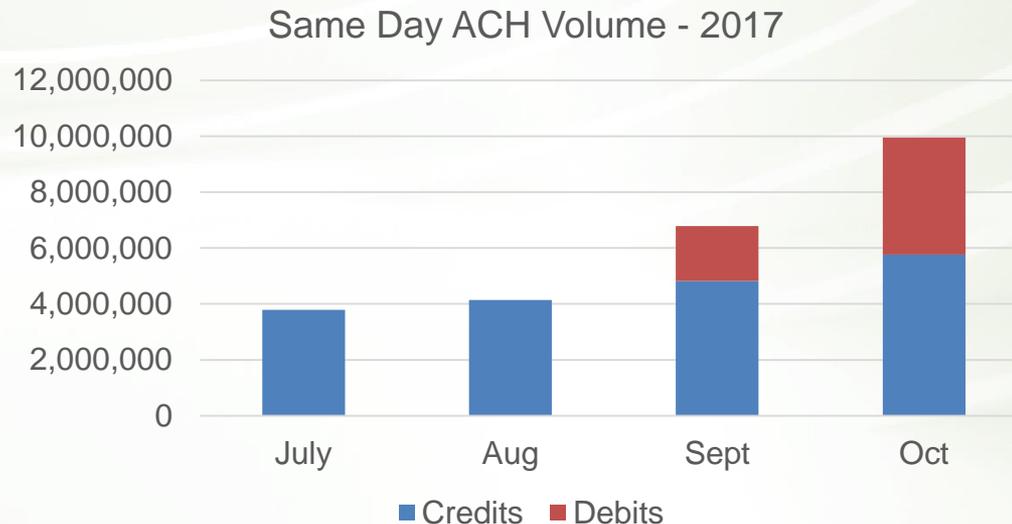
| Functionality | ✓ Phase 1 Sept. 23, 2016 | ✓ Phase 2 Sept. 15, 2017 | Phase 3 March 16, 2018 |
|---------------------------------------------------------------|---------------------------------|---------------------------------|-------------------------------|
| Transaction Eligibility (\$25,000 limit; IAT not eligible) | Credits only | Credits and debits | Credits and debits |
| New Same Day ACH Processing Windows | 10:30 am ET and 2:45 pm ET | 10:30 am ET and 2:45 pm ET | 10:30 am ET and 2:45 pm ET |
| New ACH Settlement Time(s) | 1:00 pm ET and 5:00 pm ET | 1:00 pm ET and 5:00 pm ET | 1:00 pm ET and 5:00 pm ET |
| National Settlement Service closing time | 5:30 pm ET | 5:30 pm ET | 5:30 pm ET |
| ACH Credit Funds Availability | End of RDFI's processing day | End of RDFI's processing day | 5:00 pm RDFI local time |

Same Day ACH Implementation - Through Phase 3

- The current implementation of Same Day ACH through Phase 3 results in
 - Ubiquitous reach to all financial institutions and all accounts via two daily Same Day ACH processing windows
 - Eligibility of most ACH credits and debits for Same Day ACH processing
 - Only international and transactions over \$25,000 are ineligible (approx. 2% of current ACH transaction volume)
 - Ubiquitous funds availability requirement for Same Day ACH credits by 5:00 p.m. RDFI local time
 - Eligibility of all returns for Same Day ACH processing

Same Day ACH – Volume Statistics

- Since its inception in Sept. 2016 through Oct. 2017, Same Day ACH has resulted in 63 million SDA transactions, moving \$79 billion in value
 - SDA credit volume since Sept. 23, 2016 – 57 million transactions; \$75 billion
 - SDA debit volume since Sept. 15, 2017 – 6 million transactions; \$4 billion
- With the introduction of debits, and ongoing adoption of credits, SDA volume has more than doubled in recent months





Expanding Same Day ACH

Part 1

Add a Same Day ACH Processing Window

Add a Same Day ACH Processing Window – Industry Need

- Currently, Same Day ACH is available to Originating Depository Financial Institutions (ODFIs) until 2:45 p.m. ET / 11:45 a.m. PT
 - The existing SDA schedules and deadlines were designed around the operating hours of the Federal Reserve’s National Settlement Service (NSS) for conducting interbank settlement
 - The Federal Reserve extended the operating hours of NSS by 30 minutes to support the first phase of SDA; NSS currently closes at 5:30 p.m. ET
- ODFI processing arrangements that use payment processors and correspondent institutions have even earlier deadlines
- ACH end-users have still earlier deadlines to submit files of SDA transactions to their ODFIs
- This timing can make it impractical for many ODFIs to offer, or for ACH end-users to adopt, Same Day ACH payments

Add a Same Day ACH Processing Window – Industry Need

- The result is that many ODFIs and their customers have limited access to SDA, particularly the farther west they are from Eastern Time
 - For example, an ACH end user in Pacific Time might have a deadline of 9:00 a.m. PT or earlier to submit Same Day ACH payroll or bill payments to its ODFI in order to meet the submission deadline of the second SDA processing window
 - As another example, a smaller ODFI in Central Time that uses an ACH processor to deliver files to the ACH Operator has a deadline of 11:00 a.m. CT to submit its SDA files to the processor; so it in turn has a deadline of 10:00 a.m. CT for customers to submit SDA files
 - As a third example, even in Eastern Time, a large consumer biller might have a deadline of 1:00 p.m. ET to submit files of SDA bill payments, when most of its customers initiate bill payments later in the day

Add a Same Day ACH Processing Window – Industry Need

- Financial institutions and their customers could make greater use of Same Day ACH with additional hours of availability
- A recent member survey by WesPay, a Regional Payments Association that represents financial institutions in the western U.S., found that currently, 31% of its ODFI respondents were originating SDA transactions; but that an additional 35% (for a total of 66%) would consider doing so with expanded hours
- Uses cited include payroll payments, bill payments, business-to-business payments, person-to-person payments, and account-to-account transfers

Add a Same Day ACH Processing Window – The Proposal

- The ACH Operators would establish a third, daily Same Day ACH processing and settlement window*
 - ODFIs would be able to submit files of SDA transactions until 5:15 p.m. ET / 2:15 p.m. PT
 - This timing provides ODFIs operating in Pacific Time with an afternoon schedule that is similar to that currently available to ODFIs operating in Eastern Time
 - RDFIs would receive files of SDA transactions by 6:00 p.m. ET / 3:00 p.m. PT
 - Interbank settlement would occur at 6:30 p.m. ET / 3:30 p.m. PT
 - An RDFI would make funds available for SDA credits in this new SDA processing window no later than the end of its processing day
 - This uses the same end-of-day requirement as did Phases 1 and 2
 - Any RDFI could decide to exceed the minimum requirement
 - Eligibility for SDA would be the same as currently exists – all credits and debits would be eligible for SDA processing, except international ACH transactions (IATs) and transactions over \$25,000

** The times cited here are best estimates. The exact ACH Operator processing schedules are not determined by the NACHA Operating Rules, and the inclusion of proposed ACH Operator schedules and other functions in this proposal should not be interpreted as an endorsement by either ACH Operator.*

Add a Same Day ACH Processing Window – Other Aspects of the Proposal

- The existing “returns-only” window provided by the ACH Operators would be absorbed into the new Same Day ACH processing window
- There would be no changes to other aspects of SDA
 - SDA transactions still would be identified by the use of “today’s date” in the Effective Entry Date field
 - ODFIs that hold files until after 2:45 p.m. ET to avoid unintentional SDA origination will have to modify this practice
 - All returns and Notifications of Change sent from RDFIs to ODFIs would be eligible to be sent through all SDA windows
 - The same SDA interbank fee would apply to SDA transactions in the new window (but not to returns and NOCs)

Add a Same Day ACH Processing Window – Impacts

- To receive SDA files in the later window and make funds available, some RDFIs might have to extend back office hours, or increase or redeploy staffing during these hours
 - Any such impacts could be mitigated through greater automation of ACH file processing
- Corporate ACH receivers might need to modify processes for applying payments received, or modify other end-of-day processes

Add a Same Day ACH Processing Window – Impacts

- Just as with Phases 1 and 2, a third SDA processing window could have an impact on various types of risk
 - Operational risk
 - Certain end-of-day processes might be compressed
 - ACH Operators might not be able to accommodate requests for extensions
 - A total of 4 daily ACH settlements provides more opportunities to recover from errors, missed deadlines, and outages
 - Transaction/return risk
 - Faster ACH debits could have a different return profile and rate, either positive or negative
 - RDFIs have additional opportunities to send returns faster
 - ODFIs and their Originators benefit from receiving faster returns
 - Because the last SDA window would allow both forward and return entries, returns of SDA transactions received in this window could not be settled until 8:30 a.m. the next day

Add a Same Day ACH Processing Window – Impacts

- Just as with Phases 1 and 2, a third SDA processing window could have an impact on various types of risk (continued)
 - Settlement risk
 - More frequent interbank settlement reduces settlement risk between counterparties
 - Deferred settlement for SDA transactions as described in the “Alternatives” section on slide 19 could prevent counterparties from realizing this benefit
 - Credit risk
 - More frequent interbank settlement reduces an ODFI's credit risk with its ACH Originators
 - Deferred settlement for SDA transactions as described in the “Alternatives” section on slide 19 could increase an RDFI's credit risk with its ACH Receivers
 - Fraud risk
 - Time available to conduct risk management screening is compressed
 - To date, financial institutions have not seen an increase in fraud solely due to SDA

Add a Same Day ACH Processing Window – Impacts

- The proposal to expand Same Day ACH assumes, and is dependent upon, the Federal Reserve extending the operating hours of its National Settlement Service to 7:00 p.m. ET / 4:00 p.m. PT
 - NACHA has formally requested such an extension to support SDA
 - As of the issuance of this Request for Comment, the Federal Reserve has not stated how and when it might extend settlement to support expanded SDA
- Extended operating hours for interbank settlement potentially could have other impacts
 - Currently, NSS is open within the operating hours of Fedwire, which currently cuts-off at 6:30 p.m. ET for Settlement Payment Orders
 - This proposal assumes that Fedwire hours for Settlement Payment Orders would need to be extended until after the time of interbank settlement (e.g., until 7:30 p.m. ET)
 - The extension of Fedwire hours, whether just for Settlement Payment Orders or for all wire transfers, would have impacts beyond ACH

Add a Same Day ACH Processing Window – Impacts

This table shows potential changes in timing to end-of-day processes that are assumed to result from the extension of NSS necessary to support expanded SDA. Potential changes/new times are shown in red. Industry respondents are asked to consider the impact of these potential changes, including the amount of time that financial institutions need between any two of the items.

| Service | Current time | Potential new time* | |
|----------------------------------------------|------------------------------|------------------------------|------------------------------------------|
| Interbank settlement for new SDA window | N/A | 6:30 p.m. ET 3:30 p.m. PT | |
| National Settlement Service closes | 5:30 p.m. ET 2:30 p.m. PT | 7:00 p.m. ET 4:00 p.m. PT | Duration decreases from 30 to 15 minutes |
| Fedwire closes for third-parties | 6:00 p.m. ET 3:00 p.m. PT | 7:15 p.m. ET 4:15 p.m. PT | |
| Fedwire closes for Settlement Payment Orders | 6:30 p.m. ET 3:30 p.m. PT | 7:30 p.m. ET 4:30 p.m. PT | Duration decreases from 30 to 15 minutes |
| Fedwire re-opens for the next banking day | 9:00 p.m. ET 6:00 p.m. PT | 9:00 p.m. ET 6:00 p.m. PT | Duration decreases from 2.5 to 1.5 hours |

* The times cited here are estimates, and assumes the existing chronological order remains. The schedules are not determined by the NACHA Operating Rules. Their inclusion is for illustrative purposes and should not be interpreted as an endorsement by the Federal Reserve.

Add a Same Day ACH Processing Window – Impacts

- What impacts would these extended hours have within financial institutions on end-of-day processes? Impacts could be to processes, technology or resources in areas such as
 - Wire transfer operations
 - Liquidity management
 - Federal Reserve account management / reconciliation
- How much can end-of-day processes be extended or compressed?
 - What is the minimum amount of time that financial institutions need between each of the two points in the timeline shown above?
 - Do financial institutions need Fedwire to remain open to third-parties after NSS?
 - What is the minimum amount of time that financial institutions need between the close of Fedwire, and the re-opening of Fedwire at 9:00 p.m. ET for the next banking day?
- The compression of timing between points provides less cushion for exceptions
 - Less cushion could result in more frequent extensions to the close of Fedwire, and/or more frequent delays to the Fedwire re-open on the next business day

Add a Same Day ACH Processing Window – Alternatives to the Proposal

- The proposed processing window could be adjusted
 - Earlier times would lessen impacts on ACH receipt and end-of-day processes, but also would lessen the benefits of expanding access to Same Day ACH
 - Later times would increase access, but have more significant end-of-day impacts
- Interbank settlement could be deferred
 - Settlement could occur as early as 9:00 p.m. ET by re-opening NSS for the next banking day,* without impacting other Federal Reserve end-of-day processes
 - Or, settlement could occur the next morning as early as 7:30 a.m. ET with no changes to NSS or other Federal Reserve services
 - By settling on the next banking day, deferred settlement could make these transactions look more like next-day ACH rather than Same Day ACH
 - Financial institutions would incur credit risk by making funds available prior to settlement
 - Settlement risk remains until interbank settlement occurs
- Transaction eligibility in the new SDA window could be modified or phased-in
 - Eligibility could start with credits only for the first year, just as with the original Phase 1 of SDA

** The Federal Reserve could open NSS as early as 9:00 p.m. ET operating on the next banking day, as it currently does with Fedwire*

Add a Same Day ACH Processing Window – Request for Comment

- Comments are requested from the industry on all aspects of this proposed new Same Day ACH processing window
 - Does your organization generally support the expansion of SDA as outlined here?
 - What are the benefits of expanded access to SDA?
 - What types of ACH use cases would take advantage of later SDA hours?
 - How much new SDA volume would be generated?
 - Are there any specific changes you would suggest?
 - What are the impacts of expanded SDA?
 - On receipt of SDA payments and funds availability?
 - On various types of risk?
 - On other end-of-day processes for ACH, and beyond ACH?



Expanding Same Day ACH

Part 2 Faster Funds Availability

Funds Availability – Current State

- Currently, funds from non-SDA credits are required to be made available by the end of the Settlement Date
 - As an example, an ACH credit that is originated on Monday for Tuesday settlement would have funds availability required by the end of Tuesday (i.e., 12:00 midnight)
 - One exception is for PPD credits received by 5:00 p.m. local time; funds availability for these credits is by opening of business local time to incent use of Direct Deposit
- Currently, as of Phase 3 funds from SDA credits are required to be made available by 5:00 p.m. RDFI local time
 - This requirement includes SDA credits received in the first processing window that settle at 1:00 p.m. ET
- Consumer and corporate ACH receivers would benefit from having faster access to funds from other ACH credits, whether SDA credits or non-SDA credits
 - PPD credits for payroll and other business-to-consumer disbursements
 - WEB credits for P2P transfers
 - CCD and CTX credits for B2B payments
- Many RDFIs already exceed the minimum requirements of the current rules

Faster Funds Availability – The Proposal

- For SDA credits received in the first SDA window, funds would be required to be made available by 1:00 p.m. RDFI local time
- For non-SDA credits:
 - For credits received prior to 5:00 p.m. RDFI local time, funds would be required to be made available by 9:00 a.m. local time on Settlement Day
 - This is similar to the existing rule on availability for PPD credits; however, the current “opening of business” language is changed to “9:00 a.m. local time”
 - For credits received after 5:00 p.m. RDFI local time, funds would be required to be made available by 1:00 p.m. local time on Settlement Day
- All funds availability times are “no later than”
 - An RDFI can exceed the minimum requirement

Faster Funds Availability - Overview

Proposed changes to existing rules are shown in red

| Processing Window/ Schedule | RDFI receipt time | Current funds availability requirement | Proposed funds availability requirement |
|----------------------------------------------------|----------------------------------------|-----------------------------------------------------------------------|---------------------------------------------|
| First SDA window | 12:00 noon ET | 5:00 p.m. local time* | 1:00 p.m. RDFI local time |
| Second SDA window | 4:00 pm ET | 5:00 p.m. local time | 5:00 p.m. RDFI local time |
| New, third SDA window <i>(assumes adoption)</i> | 6:00 p.m. ET | N/A | End of processing day |
| Non-SDA | Received prior to 5:00 p.m. local time | - Opening of business for PPD - End of settlement date for non-PPD | 9:00 a.m. RDFI local time for all SEC Codes |
| Non-SDA | Received after 5:00 p.m. local time | End of settlement date | 1:00 p.m. RDFI local time |

* RDFIs in the Atlantic Time Zone may use Eastern Time as local time

Faster Funds Availability - Alternative

- While each proposed change provides an improvement in funds availability for consumer and corporate receivers, in total there would be 4 distinct funds availability requirement times throughout the banking day
- An alternative could consolidate one or more of these times to simplify the overall requirements
 - For example, all non-SDA credits could have a single funds availability requirement of 9:00 a.m. local time, as settlement will have occurred at 8:30 a.m. ET

Faster Funds Availability – Request for Comment

- Comments are requested from the industry on all aspects of providing faster funds availability
 - Does your organization generally support faster funds availability for all ACH credits?
 - Are there any specific changes you would suggest?
 - For RDFIs, what are your current practices?
 - Do you already exceed the minimum requirements?
 - What are the risks of making funds available faster?
 - For example, if funds are withdrawn faster, the correction of errors or recovery of fraud might be more difficult



Expanding Same Day ACH

Part 3

Increase the SDA Per-Transaction Dollar Limit

Same Day ACH Per-Transaction Limit – Current State

- SDA transactions currently are limited to \$25,000 per transaction (not per batch or file)
- This limit was incorporated into the original rule as a risk management measure
 - The industry would gain experience with SDA transactions while transacting at relatively low dollar amounts
 - Business end-users as receivers of SDA transactions also would be able to adapt to new receipt times at relatively low dollar amounts
- At the current dollar amount, approximately 98 percent of ACH transactions are eligible for Same Day ACH processing

Same Day ACH Per-Transaction Limit – Need

- There are some Same Day ACH use cases for which end users could make greater use with a higher per-transactions dollar limit
 - **B2B payments** - Approximately 90 percent of B2B payments currently are eligible for SDA. Increasing the limit to \$100,000 would encompass an additional 7% of B2B payments, including both credits and debits
 - **Payroll funding** – Payroll processors commonly use an ACH debit to collect funds for a payroll. Even though individual SDA payroll credits are for less than \$25,000 each, the single funding debit is for more than \$25,000
 - **Insurance claims and disaster assistance payments** can often be for more than \$25,000, and are typically urgent for the recipient
 - **Tax payments** – From business to government agencies
 - **Funding for payment card transactions** - Many merchants receive funds from payment card transactions via ACH credits, and these settlement transactions are often more than \$25,000
 - **Account-to-account transfers** can often be for more than \$25,000. These can be credits or debits

Same Day ACH Per-Transaction Limit – The Proposal and Alternatives

- NACHA proposes to increase the SDA per-transaction dollar limit from \$25,000 to \$100,000
 - An additional 1.3% of ACH volume would become eligible for SDA
 - For B2B payments, an additional 7% would become eligible
- Alternatives include
 - Higher or lower amounts as the limit (e.g., \$50,000; \$250,000)
 - Different limits for credits and debits (e.g., \$100,000 for credits; \$25,000 for debits)
 - Different limits for certain SEC Codes
 - Raising the limit for the existing SDA windows, while retaining the current \$25,000 limit for the new SDA window due to its timing late in the day

Same Day ACH Per-Transaction Limit – Impacts

- There are potential impacts of a higher per-transaction dollar limit on the receipt of ACH transactions
 - RDFIs and their customers would be required to receive SDA transactions up to the dollar limit
 - Higher per-transaction dollar limits could be more impactful later in the day, especially with the new SDA processing window
 - Target distribution of these SDA files to RDFIs in this new window is 6:00 p.m. ET / 3:00 p.m. PT
 - What impacts would this have on end-of-day processes?
- For ODFIs, customers might be able to initiate higher-dollar credits that move funds out faster
 - What is the impact on screening, or recovery when necessary?

Increasing the Dollar Limit – Request for Comment

- Comments are requested from the industry on all aspects of increasing the SDA per-transaction dollar limit
 - Does your organization generally support the increase in the per-transaction dollar limit to \$100,000?
 - What types of ACH use cases would take advantage of the higher per-transaction dollar limit?
 - How much new SDA volume would be generated?
 - Are there any specific changes you would suggest?
 - What are the impacts of a higher per-transaction dollar limit?
 - On RDFIs?
 - On ODFIs?
 - On corporate Originators and Receivers?



Expanding Same Day ACH

Part 4

ACH Processing on Weekends and Holidays

ACH Processing on Weekends and Holidays – Request for Information

- Although not a formal proposal to amend the *Rules* at this time, NACHA requests that ACH participants provide feedback on the potential benefits and impacts of greater ACH processing on weekends and holidays
- Currently, there is no interbank settlement of ACH transactions on weekends and holidays
 - These are not Federal Reserve banking days, and the Fed’s National Settlement Service is not available
- This RFI assumes that interbank settlement of “weekend and holiday ACH” would take place on the next banking day
 - For example, a credit or debit received on a Saturday could be memo-posted to the account, but settlement would occur Monday morning (or Tuesday morning on a holiday weekend)
 - Alternatively, the Fed could make NSS available on Saturday as an early opening of Monday’s banking day
 - In this scenario, funds would settle between financial institutions on Saturday, but would reflect Monday’s banking day regarding Federal Reserve accounts

ACH Processing on Weekends and Holidays – Request for Information

- Examples of “use cases” for weekend processing include
 - A payroll payment initiated on Friday could be made available to the employee on Saturday
 - A bill payment initiated on a Saturday could be credited to the payer’s account on that same day
 - Person-to-person and account-to-account transfers could be completed over a weekend
 - Business-to-business payments could be made as goods are shipped or received on these days
 - Financial institutions’ account holders could have more up-to-date information about their available balances
 - Returns could be received sooner by ODFIs and their Originators
 - All of these use cases become more significant on three-day holiday weekends
- Would these use cases be improved by having ACH processing occur on weekends and holidays?
 - For example, memo-posting a payroll credit could make some or all funds available to the account holder
 - Memo-posting a debit, such as a bill payment, could prevent an account holder from otherwise using funds that will not be available as of the next Banking Day
 - More up-to-date information about the account balance could be provided

ACH Processing on Weekends and Holidays – Request for Information

- Would any potential benefit be lessened or eliminated if settlement is deferred to the next Banking Day?
 - For example, to what extent can funds be made available prior to settlement?
- Deferred settlement could have impacts similar to those described above regarding the new SDA processing window
 - FIs would incur credit risk if making funds available prior to settlement
 - Settlement risk remains until interbank settlement occurs

ACH Processing on Weekends and Holidays – Request for Information

- Comments are requested from the industry on interest in ACH processing on weekends and holidays
 - Would there be benefits to weekend and holiday ACH processing?
 - What types of ACH use cases would be improved?
 - Payroll, bill payment, B2B, P2P, A2A
 - Are there others?
 - Is weekend and holiday ACH of interest to your organization?
 - How feasible is it for your organization?
 - What are the impacts?
 - Would deferred interbank settlement affect any interest in, and the benefits of, weekend and holiday processing?
 - Is there value in exchanging transactions, even with deferred settlement?
 - To what degree would FIs be willing to make funds available prior to settlement?



Expanding Same Day ACH

Proposed Effective Dates

Expanding Same Day ACH – Proposed Effective Dates

- Faster funds availability
 - Proposed effective date of March 15, 2019
 - Assuming a rule is approved by mid-to-late second quarter 2018, the industry would have 9-10 months to implement it
- Add a new, third SDA processing window
 - Proposed effective date of September 20, 2019
 - This would provide ACH Operators and the industry approximately 15-16 months to implement, about the same amount of time as Phase 1
 - There is uncertainty regarding the availability of interbank settlement services to support this new processing window by this proposed effective date
- Increase the per-transaction dollar limit
 - Proposed effective date of March 20, 2020
 - Provides the industry with 6-month's experience with the new window at relatively lower dollar amounts before raising the limit

Expanding Same Day ACH – Proposed Effective Dates

- Alternatives include switching the effective order of the increased dollar limit and the new processing window
 - This alternative might be more attractive if the industry needs additional time to implement the proposed new processing window, or if interbank settlement will not be available by the proposed effective date
- Comments from the industry are requested on these proposed effective dates and alternatives