Same Day ACH – The Future is Here!

Wendy Radford, AAP - Product Development Liaison, Retail Payments Office
Federal Reserve Bank of Atlanta

Alex Romeo - Vice President, EPN Product Manager
The Clearing House Payments Company

Michael Herd, Senior Managing Director, NACHA

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Why Same Day ACH?

Responding to Market Needs

- 86 million ACH payments are made every day (1Q17)
- Same Day ACH creates an option
- Support desires of your bank customers or credit union members

Same Day ACH Implementation – Three Phases

<table>
<thead>
<tr>
<th>Functionality</th>
<th>Phase 1 Sept. 23, 2016</th>
<th>Phase 2 Sept. 15, 2017</th>
<th>Phase 3 March 16, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transaction Eligibility</td>
<td>Credits only</td>
<td>Credits and debits</td>
<td>Credits and debits</td>
</tr>
<tr>
<td>New Same Day ACH Processing Windows</td>
<td>10:30 am ET and 2:45 pm ET</td>
<td>10:30 am ET and 2:45 pm ET</td>
<td>10:30 am ET and 2:45 pm ET</td>
</tr>
<tr>
<td>New Settlement Time(s)</td>
<td>1:00 pm ET and 5:00 pm ET</td>
<td>1:00 pm ET and 5:00 pm ET</td>
<td>1:00 pm ET and 5:00 pm ET</td>
</tr>
<tr>
<td>ACH Credit Funds Availability</td>
<td>End of RDFI’s processing day</td>
<td>End of RDFI’s processing day</td>
<td>5:00 pm RDFI local time</td>
</tr>
</tbody>
</table>

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Looking Back: Operator Collaboration

- Collaboration on Same Day ACH has been continuous throughout the rulemaking and implementation period, and is ongoing
  - Between ACH Operators directly
  - Jointly with NACHA
  - Collectively with financial institutions/RPAs
- Ensure alignment between what the industry says it wants (expressed via the rulemaking process), and the infrastructure and services that the Operators provide
- Ensure that Same Day ACH is ubiquitous and is working as intended
- Plan for same-day processing windows that can accommodate projected usage

2016 AFP Electronic Payments Survey
Underwritten by J.P. Morgan

- Likely uses of Same Day ACH Payments
  - Last-minute bill payments – 58%
  - Emergency payroll – 38%
  - AP payments on last day of discount availability – 24%
  - Most payments, provide clients with fastest payments possible – 19%
  - Trading partner payments – 17%
  - Other – 10%

Same Day ACH Credits Can Be Sent Now!

- Certain payroll payments
  - Recovery from missed deadlines and other errors
  - Hourly and temporary workers
  - Contract employees
  - Termination pay
- Business to consumer
  - Insurance claim payments
  - Loan disbursements
  - Refunds
- Business to business
  - Just-in-time payments for release/shipment of goods
  - Invoice due date / late payments
  - Merchant funding
- Person-to-person payments
  - Gifts, allowances, bill sharing
Same Day ACH Transaction Volume

- ACH Operator reported volume for September 23, 2016 – March 31, 2017
  - 26.3 million same-day ACH transactions
  - Approx. 204 thousand per processing day
  - $34.4 billion transferred
    - Average of $1,307 per transaction

Same Day ACH Transaction Volume

<table>
<thead>
<tr>
<th></th>
<th>4Q 16</th>
<th>1Q 17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume</td>
<td>12.7</td>
<td>13.9</td>
</tr>
</tbody>
</table>

+13.6%

Same Day ACH Transaction Volume

By SEC Code

<table>
<thead>
<tr>
<th></th>
<th>PPD</th>
<th>CCD</th>
<th>CTX</th>
<th>WEB</th>
<th>CIE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume</td>
<td>0.98</td>
<td>2.2</td>
<td>1.5</td>
<td>3.4</td>
<td>0.5</td>
</tr>
<tr>
<td>Value</td>
<td>13.1</td>
<td>13.1</td>
<td>13.6</td>
<td>13.1</td>
<td>13.1</td>
</tr>
</tbody>
</table>
NACHA Survey of Direct FI Members – Post-Implementation
(Dec 2016-Jan 2017)

Findings

• 61% of Receiving FIs said volume received was about what was anticipated; 22% said volume was higher than anticipated
• 55% of Originating FIs said volume was about what was anticipated; 35% said volume was higher than anticipated
• 80% of Originating FIs anticipate SDA volume will grow at a steady rate over the next 6-9 months
• FIs are not experiencing higher fraud as a result of Same Day ACH
  – Same Day ACH does not introduce new vectors for fraud

Looking Forward - Use Cases for Same Day ACH Debits

ACH Debits become eligible for same-day processing on September 15, 2017

• Consumer billing
  – Due date / late payments
  – Payments to initiate, stop, or prevent loss of service
  – Any bill payment in which credit is given immediately
  – Any bill payment in which non-payment risk is elevated
• Check conversion/POS
  – Merchants and tokboxes
• Collections
• Business-to-business
  – Just-in-time payments for release/shipment of goods
  – Invoice due date / late payments
• Individual account-to-account transfers
Phase 2 Implementation Considerations

- Testing, Testing, Testing
  - NACHA and both ACH Operators strongly encourage all parties to test
  - Both ACH Operators will offer testing for Phase 2 readiness; testing schedules have been released for summer of 2017
  - Testing should include more than just file pick up; also posting to downstream applications, and reconcilement with both the Operator and the customer
  - Don’t assume you are covered because your business partner has tested that
  - Don’t assume you are covered because “we did it already” in Phase 1

Phase 2 Implementation Considerations

- “Check and Correct” Effective Entry Dates
  - It is the responsibility of every ODFI and all their Originators to take reasonable care that debits settle on the date intended, even for those not planning to use Same Day ACH
  - Debiting early is prohibited by the Rules, but more importantly there are other potential significant risks to debiting consumers too early
    - Elevated risk of returns as unauthorized
    - Reputational injury for processing errors that are preventable
  - Originators whose systems use “default dates” are at an elevated risk of unintentional same-day origination
  - Don’t be that guy! Take reasonable care to prevent unintentional same-day debits
  - Read ACH Operations Bulletin #2-2017 on Same Day ACH and Debit Processing

FedACH Effective Entry Date Usage*

- This is not representative of entire ACH network. Stale include those eligible entries submitted to FedACH prior to the 2:45 pm ET deadline (not IAT, not over $25K)

<table>
<thead>
<tr>
<th>Stale Dated Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Oct 16</td>
</tr>
<tr>
<td>Nov 16</td>
</tr>
<tr>
<td>Dec 16</td>
</tr>
<tr>
<td>Jan 17</td>
</tr>
<tr>
<td>Feb 17</td>
</tr>
<tr>
<td>Mar 17</td>
</tr>
</tbody>
</table>

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Phase 2 Implementation Considerations

- Faster returns
  - While already available, RDFIs should consider using the new same-day processing windows for sending returns
  - Clears exceptions off the books faster
  - RDFIs re-credited faster for debit returns
  - There are no eligibility restrictions and no Same Day Entry Fee charges
  - Allows ODFI and Originator to receive and fix exceptions faster

Same Day ACH and the U.S. Treasury

- The U.S. Treasury intends to be ready to go live with Same Day ACH on September 15, 2017
  - Same date as the Phase 2 effective date
  - As of this date, the U.S. Treasury's Bureau of Fiscal Services will be ready to receive same-day ACH credits for tax and non-tax payments
  - The Bureau will then roll out Same Day ACH origination capabilities, beginning with the IRS' Electronic Federal Tax Payment System (EFTPS) in October 2017
  - Treasury's participation and go-live date are dependent on the publication of a final rule (31 CFR Part 210)

ODFI Call to Action

- Decide which Same Day ACH debit services will meet the needs of various customers or members
  - Understand use cases
  - Same Day ACH is an option – for both "which customers" and "which use cases" to support
- Address correct dating of transactions
  - Identify and contact Originators with incorrect dates, or other act to address incorrect dates
- Communicate with corporate customers on use cases and correct formatting
- Review corporate reports, Treasury Management and online banking systems for Same Day ACH integration
- Ask vendors and processors about their support for Phase 2
RDFI Call to Action

- Understand schedules for receipt of same-day transactions
  (Operator delivery schedules will not change from Phase 1)
- Determine how and when to post received same-day debit transactions
- Review opportunity to send returns faster via same-day processing windows
- Review corporate reports, Treasury Management and online banking systems for Same Day ACH integration
- Communicate with corporate customers on file delivery including remittance and posting requirements
- Ask vendors and processors about their support for Phase 2

Corporate Call to Action

- Evaluate new opportunities to originate same-day debit payments
  - Same Day ACH is an option to discuss with your financial institution
- Effective date needs to be accurate, even if you are not intending to originate same-day transactions
  - Do not be an unintentional Same Day ACH originator
- Understand potential to receive same-day transactions
  - Contact your financial institution about transaction, information, and balance reports
- Understand potential impact on cash balances
  - Phase 1 limited to credits; Phase 2 includes credits and debits
  - Transaction limit of $25,000

Processor Call to Action

- Work proactively with all clients to be ready for Phase 2 Same Day ACH implementation
- Provide education and opportunities for testing in advance of the go-live date
- Understand your role in accurate processing, especially with respect to correct timing and dates
- Collaborate with NACHA and ACH Operators on readiness status
Phase 3 – Funds Availability

NACHA asked member RDFIs when they would be ready to meet the Phase 3 customer funds availability requirement of 5:00 p.m. local time.

- Based on number of respondents
  - 70% at Phase 1 date (prior to requirement by rule)
  - 2% at Phase 2 date (prior to requirement by rule)
  - 25% at Phase 3 date (deadline required by rule)
  - 2% Other – N/A do not have transaction accounts

- Based on transaction volume
  - Respondents indicating they will provide Phase 3 availability in Phase 1 represent 44% of commercial ACH Network received volume

The Whole Picture

- Phase 1 went very well for a number of reasons
  - Something new in the Network creates excitement
  - Significant industry engagement and education
  - Great collaboration
  - Eligibility limited to low-dollar credits

- Phase 2 success is dependent on the reasons above plus
  - Increased importance of proper use of effective entry dates
  - Understanding the potential impact of debits being processed faster
  - Greater participation in testing
  - Ongoing organization and management attention
## Appendix

### Processing Day — All times are Eastern

<table>
<thead>
<tr>
<th>Time</th>
<th>Activity Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>6:00 am</td>
<td>Origination files for Current Business Day are accepted by CDBFs</td>
</tr>
<tr>
<td>6:30 am</td>
<td>1st Distribution of the day — Output files available to all EPN Receivers — Output files distributed to Fed RDFIs</td>
</tr>
<tr>
<td>6:35 am</td>
<td>EPN Primary Settlement complete and final</td>
</tr>
<tr>
<td>10:00 am</td>
<td>OFHI Deposit Deadline for Inter-Operator entries</td>
</tr>
<tr>
<td>11:00 am</td>
<td>OFHI Disbursement for Inter-Operator entries - Forward same-day transactions to settle by 1:00 pm current day — Returns to settle by 1:00 pm current day</td>
</tr>
<tr>
<td>11:00 am</td>
<td>2nd Distribution of the day — Output files available to all EPN RDFIs — Output files distributed to Fed RDFIs</td>
</tr>
<tr>
<td>1:00 pm</td>
<td>13:00 Same Day Settlement complete</td>
</tr>
<tr>
<td>2:45 pm</td>
<td>OFHI Deposit Deadline for Inter-Operator entries - Forward same-day transactions to settle by 5:00 pm current day — Returns to settle by 5:00 pm current day</td>
</tr>
<tr>
<td>3:15 pm</td>
<td>OFHI Disbursement for Inter-Operator entries - Forward same-day transactions to settle by 1:00 pm current day — Returns to settle by 1:00 pm current day</td>
</tr>
<tr>
<td>3:45 pm</td>
<td>3rd Distribution of the day — Output files available to all EPN RDFIs — Output files distributed to Fed RDFIs</td>
</tr>
</tbody>
</table>
### Processing day -- All times are Eastern

<table>
<thead>
<tr>
<th>Time</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>4:00 pm</td>
<td>Accept early deposit of origination files scheduled for the Next Business Day.</td>
</tr>
<tr>
<td>4:00 pm</td>
<td>ODFI Deposit Deadline for Inter-Operator and intra-EPN entries.</td>
</tr>
<tr>
<td>4:00 pm</td>
<td>Returns to incoming ODFIs on current day.</td>
</tr>
<tr>
<td>6:00 pm</td>
<td>1st Distribution of the day. Output files available to all large EPN Receivers.</td>
</tr>
<tr>
<td>6:00 pm</td>
<td>Output files available to all EPN RDFIs.</td>
</tr>
<tr>
<td>6:00 pm</td>
<td>Output files distributed to Fed RDFIs.</td>
</tr>
<tr>
<td>9:00 pm</td>
<td>Returns to settle by 5:00 pm current day.</td>
</tr>
<tr>
<td>4:30 pm</td>
<td>4th Distribution of the day. Output files available to all large EPN Receivers.</td>
</tr>
<tr>
<td>4:30 pm</td>
<td>Output files distributed to Fed RDFIs.</td>
</tr>
<tr>
<td>5:10 pm</td>
<td>EPN 5:00 pm Same Day Settlement complete.</td>
</tr>
<tr>
<td>8:30 pm</td>
<td>5th Distribution of the day. Output files available to all large EPN Receivers.</td>
</tr>
<tr>
<td>8:30 pm</td>
<td>Output files distributed to Fed RDFIs.</td>
</tr>
<tr>
<td>11:30 pm</td>
<td>Last exchange of the processing day.</td>
</tr>
<tr>
<td>2:30 am</td>
<td>ODFI Deposit Deadline for Inter-Operator entries.</td>
</tr>
<tr>
<td>4:00 am</td>
<td>7th Distribution of the day. Output files available to all large EPN Receivers.</td>
</tr>
<tr>
<td>4:00 am</td>
<td>Output files distributed to Fed RDFIs.</td>
</tr>
</tbody>
</table>