



FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 75-88
June 23, 1975

American Revolution Bicentennial

AUTOMATED CLEARING HOUSES

TO ALL BANKS,
OTHER FINANCIAL ORGANIZATIONS,
AND OTHERS CONCERNED IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

The Board of Governors of the Federal Reserve System recently invited comment on proposed arrangements for utilizing Federal Reserve facilities in clearing and settling magnetically recorded payment instructions.

The proposed arrangements cover the deposit, delivery, and settlement procedures relative to such payments when they are processed through Federal Reserve facilities. These proposed arrangements are intended to help reduce overall operating costs by encouraging financial organizations to consolidate delivery and acceptance of payroll instructions recorded on magnetic tape and by minimizing the number of separate financial organizations that must be served by the Federal Reserve.

Interested persons are invited to submit comments concerning the proposed arrangements in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, to be received not later than July 14, 1975.

A copy of the press release outlining this arrangement in greater detail is printed on the following pages.

Sincerely yours,
T. W. Plant
First Vice President



FEDERAL RESERVE

press release

June 10, 1975

For Immediate Release

The Board of Governors of the Federal Reserve System today invited comment on proposed arrangements for utilizing Federal Reserve facilities in clearing and settling magnetically recorded payment instructions.

Comment will be received through July 14, 1975.

Currently, Federal Reserve automated facilities -- where payment instructions recorded on magnetic tape, rather than on checks, are sorted and cleared -- are being used by a number of associations of financial institutions that have agreed to exchange payments by magnetic tape. These are known as Automated Clearing House Associations.

The Air Force is using magnetic tape and automated Federal Reserve facilities to make payroll deposits in some areas. Such payments are made on behalf of Air Force personnel who have elected to have their pay deposited directly in financial institutions of their choice.

The Treasury Department and the Social Security Administration have announced they intend to make use, in the near future, of Federal Reserve automated facilities to make payments by means of magnetic tape. Payments made in this way are received by the beneficiary's financial institution more quickly, and with less risk of loss or theft, than payment by check, and can be made at only a small fraction of the cost of check payments.

The proposed arrangements, on which the Board invited comment, cover the deposit, delivery and settlement procedures involved in such payments when they are processed through Federal Reserve facilities.

Two types of operations are involved, the first concerned with getting the payment instructions on magnetic tape to the Federal Reserve and the second with delivery by the Federal Reserve to financial institutions.

A summary of the two types of operations follows:

1. Forwarding of magnetically recorded payment instructions to the Federal Reserve:

--Under the proposed arrangements such payments may be initiated by all member banks of the Federal Reserve System, by members of automated clearing house associations who are authorized to maintain demand deposit accounts and whose payment volume is sufficient to warrant separate handling by the Federal Reserve, and by financial institutions that are not members of the Federal Reserve System who are authorized to maintain demand deposit accounts and whose payment volume is sufficient to warrant separate handling.

2. Delivery by the Federal Reserve of such payment instructions:

--Reserve offices would deliver the payment information -- including the name of the payor or payee and the account number -- to commercial banks under the present check courier arrangements. Federal Reserve offices would also deliver the payment information to thrift institutions and their processing centers, when volume warrants and where Federal Reserve check courier service permits.

--Alternatively, financial institutions would be offered the option of picking up payment information at the nearest Federal Reserve office, subject to volume adequate to justify the operation.

--A third delivery option would be a pass-through arrangement, in which a financial institution designates a processing center to receive its payment information.

Settlement for payments cleared under these proposed arrangements would be made by credit and debit entries to reserve accounts of member banks of the Federal Reserve System.

These proposed arrangements are intended to help reduce overall operating costs by encouraging financial institutions to consolidate delivery and acceptance of payment instructions recorded on magnetic tape and by minimizing the number of separate financial institutions that must be served by the Federal Reserve.

A copy of the proposal is attached.

Attachment.

TITLE 12--BANKS AND BANKING

CHAPTER II--FEDERAL RESERVE SYSTEM

SUBCHAPTER A--BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Proposed Policy on Access to Federal Reserve Clearing
and Settlement Facilities

The Federal Reserve, in furtherance of its policy to facilitate the offering of faster, more convenient, and more economical banking services for the public, is involved in many regions in the clearing and settling of payments exchanged on magnetic tape. Such a policy has been a part of Federal Reserve Board goals to improve the nation's payment mechanism since 1971 (1971 Federal Reserve Bulletin 546). Federal Reserve facilities for handling the information on magnetic tape are used by automated clearing house associations in various regions of the country and the Air Force Accounting and Finance Center in Denver. The Department of the Treasury and the Social Security Administration have announced their intention to use such facilities in the near future (see 40 Federal Register 16669).

The Board seeks specific comment on the issue of what type of financial institutions--i.e., commercial banks, savings and loan institutions, mutual savings banks, credit unions, etc.--should be permitted to send and receive magnetic tapes directly from the

Federal Reserve Bank facilities. The Board believes that comment on this proposed position is in furtherance of its request for comment on November 29, 1973, regarding the broad questions related to access by financial institutions to electronic fund transfer services (see 39 Federal Register 39952). The proposed policy would be adopted pursuant to the Board's authority under Sections 11(j) and 16(o) of the Federal Reserve Act (12 U.S.C. 248(j) and 248(o), respectively). The Board's proposed policy on access announced today is intended to apply regardless of whether the institution is a member of a local automated clearing association of banks and is also intended to apply to delivery by the Federal Reserve Bank of "Federal recurring payments," such as Air Force and social security payments. In view of the many changes occurring in the electronic payments mechanism area, the proposal, if adopted, would be subject to periodic review. In particular, further review would be undertaken as necessary to take account of any Congressional action growing out of the results of the study by the National Commission on Electronic Fund Transfers. To the extent consistent with such Congressional action, the Federal Reserve intends to introduce at some later date charges for its various types of payments services with appropriate recognition of reserves maintained by Federal Reserve member banks.

The access proposal upon which the Board invites comment is as follows:

Institutions eligible to send items to Federal Reserve facilities--

(1) All member banks of the Federal Reserve System.

- (2) Any nonmember financial institution that is legislatively authorized to maintain demand deposit accounts and, in addition, has sufficient number of items so that direct deposit is deemed an efficient method of operation.
- (3) All other financial institutions will use the pass-through method to send items to the Federal Reserve.

Institutions eligible to have items delivered directly to them by the Federal Reserve:

- (1) All member banks of the Federal Reserve System.
- (2) All nonmember commercial banks which are located on existing Federal Reserve check courier routes.
- (3) All thrift institutions--or their data processing centers--which receive a sufficient number of items and which can be serviced by existing Federal Reserve check courier routes.
- (4) Any financial institution would be offered the option of picking up items at the local Federal Reserve office where volume warrants.
- (5) Any financial institution may use the pass-through arrangement--in which the institution designates a commercial bank or processing center to receive payment information.

Settlement for all payments would continue to be made on books of the Reserve Bank by debiting and crediting member bank accounts.

The Board does not consider negotiable orders of withdrawal, payable-through drafts, or other nonnegotiable and/or nontransferable orders of withdrawals to be demand instruments for the purpose of determining which institutions are legislatively authorized to maintain demand deposits.

As to volume requirements, the Reserve Banks will retain the authority to set requirements based upon reasonable expectations of the growth of the use of the described electronic payment services.

To aid in the consideration of this proposal by the Board, interested persons are invited to submit relevant data, views, or arguments. Any such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, to be received not later than July 14, 1975. Such material will be made available for inspection and copying upon request except as provided in § 261.6(a) of the Board's Rules Regarding Availability of Information.

By order of the Board of Governors, June 10, 1975.

(Signed) Theodore E. Allison

Theodore E. Allison
Secretary of the Board

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