FEDERAL RESERVE BANK
OF DALLAS

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FIRST VICE PRESIDENT
AND CHIEF OPERATING OFFICER

April 3, 1989

DALLAS, TEXAS 75222

Circular 89-20

TO: The Chief Operating Officer at
all financial institutions in the
Eleventh Federal Reserve District

SUBJECT

Flexible Settlement of late ACH Files

DETAILS

On June 5, 1989, the Federal Reserve Bank of Dallas will implement a
System policy for the processing and settlement of night cycle ACH files
received from other Reserve Banks that meet certain criteria and are
distributed late by an originating financial institution or an originating
Federal Reserve Bank.

Background

In October 1984, a software change was made to the System standard
ACH software to provide Reserve Banks the ability to process a late ACH night
cycle file after close of the regular night cycle processing, but settle the
file as if it had been processed in the regular night cycle. At that time,
this was not a normal procedure, since files Federal Reserve offices receive
after the close of the night cycle are usually not processed until the
following day cycle. This additional cycle is termed a "flexible-settlement"
cycle, and any file processed in this manner is called a flexible settlement
file.

Normally, the exchange of ACH files between Federal Reserve Banks is
made until 12:30 a.m. Central Time for the night cycle, but on occasion there
are files that are not available for transmission to receiving Reserve Banks
until after the close of the regular exchange window. Reserve Banks attempt
to accommodate those late files by extending their exchange window. For
extended cycle processing purposes, each Reserve Bank has established a
"latest" time for accepting late files from other Reserve Banks, depending on
conditions in the Reserve Bank's ACH operations on the night that extended
processing is requested. If the Reserve Bank is short of staff, must process
unusually heavy volume, or has experienced computer system problems, then the
Reserve Bank may refuse to extend for late processing; otherwise each Reserve
Bank makes every effort to accept and process such late files. However, on

occasion, even this extended processing is not sufficient to accommodate a file or files delivered late by either the originating institution or the originating Federal Reserve Bank, and it is for that reason that flexible-settlement processing of ACH files was implemented.

The Federal Reserve instituted flexible ACH processing in order to reduce the number of delayed files in the ACH system and to reduce the volume and value of float resulting from delayed files. It was felt that the improvement to the payments system and the reduction in float to be gained by extended processing and flexible-settlement processing would be worth the additional cost and effort, and that has proven to be the case.

When the flexible-settlement processing program was implemented in October 1984, the Federal Reserve Bank of Dallas advised its financial institutions of the program and asked them to accept flexible-settlement files on a voluntary basis. Several institutions, primarily originators, expecting the same treatment for late files they may originate, agreed to accept these flexible-settlement files. However, the number of institutions that have voluntarily accepted flexible-settlement files has been small, which has put financial institutions around the rest of the country at a disadvantage in sending files to Eleventh District institutions, since the other eleven Reserve Banks mandate receipt of flexible-settlement files to a large number of their ACH receivers.

New Policy

In an attempt to provide a uniform level of service to ACH originators and receivers nationwide, the Federal Reserve Bank of Dallas will require that many institutions in the Eleventh Federal Reserve District receiving ACH files accept flexible-settlement files as described below. Each institution's account will be credited or charged for items processed and delivered to them on a "flexible-settlement" file.

Before the Dallas Fed will process late files as flexible-settlement files, one or more of the following conditions will be met:

1)   The file is received by 1:00 a.m. Central Time and the originating Reserve Bank requests that a late cycle be run. (The Dallas Bank will have few of these since we will normally extend our regular processing to 2:00 a.m. Central time rather than run a "flex-settlement" cycle.)
2)   The file is received by 4:00 a.m. Central Time and is estimated to have a net debit dollar value of $3 million or more.

3)   The file is received by 4:00 a.m. Central Time, contains critical credits (usually payroll items), and the originating Reserve Bank requests late cycle processing.

Over the past several years, other Reserve Banks have contacted the Dallas Fed and made about two requests per month for late cycle processing. We expect that flexible-settlement files will be available for pickup or delivery by 8:00 a.m. at the latest, which should not inconvenience institutions using electronic connections or messenger delivery.

In addition to electronic and messenger pickup endpoints, most high-volume receivers will always be scheduled to receive a flexible settlement file, while others will receive flexible-settlement files depending on the dollar values of the files and our ability to deliver the files to institutions by the regular delivery time for that institution's ACH files. Institutions that can expect to receive a flexible-settlement file each time such processing is performed will be advised of their status prior to May 1. We will make every effort to broadcast notification of flexible-settlement processing to receivers who are connected to the RESPONSE network each time we perform such processing.

Since most receiving institutions do not pick up or receive their regular night cycle file prior to 7:00 a.m., and even fewer institutions process their regular night cycle file prior to 9:00 a.m., we do not expect an additional file that is created and ready for distribution by 8:00 a.m. will inconvenience Eleventh District ACH receivers.

MORE INFORMATION

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Sincerely yours,

William H Wallace