

**FEDERAL RESERVE BANK
OF NEW YORK**

Circular No. 8572
May 17, 1979

IMPROVEMENTS IN AUTOMATED CLEARING HOUSE SERVICES

*To All Banking Institutions, and Others Concerned,
in the Second Federal Reserve District:*

Following is the text of a statement issued by the Board of Governors of the Federal Reserve System:

The Federal Reserve Board today [May 14] announced actions to improve its automated clearing house services, where electronic funds transfers are cleared and settled.

The improvements are intended to provide better services to consumers, financial institutions and corporations using Federal Reserve automated clearing house (ACH) facilities.

The revisions in its ACH operations approved by the Board give users of ACH services more time to get certain types of their payments instructions to Federal Reserve ACHs, and will result in earlier availability to financial institutions of the funds being paid. Financial institutions can thus credit the accounts of their customers at an earlier time.

These improvements in ACH services follow upon the linkage, approved by the Federal Reserve in April 1978, of 36 ACHs into a national network.

Automated clearing houses move money by electronically transmitted payment instructions that take the place of movement of funds by paper checks. For example, an employer may transfer payroll payments instructions through an ACH from the employer's account in a financial institution to financial institutions where the employees have accounts.

The improvements in ACH services adopted by the Board will be subjected to a pilot test and subsequently phased in over a period of several months. In the pilot program, three to five ACHs will exchange payments to test the feasibility of the new time schedules. The remaining ACHs will be phased into the new procedures according to schedules to be determined by the local Federal Reserve Bank and the local ACH association.

The Board believes that the electronic transfer of funds made possible by ACHs is superior to payment by cash or check in many instances, due to enhanced security, convenience and reliability of payment. As volume develops, electronic transfer can become substantially cheaper than other forms of payment.

The time schedule improvements announced today are of two kinds. The first will provide financial institutions with five additional hours for initiating debit and credit payments, such as direct deposit of payroll and preauthorized bill payment, and cash concentration. For example, if payday is Friday and the employee is to have access to his wages on that day, the financial institution that is initiating the payments on behalf of the employer must deposit the payments instructions at the ACH by 5:00 a.m. Thursday. This interval covers transmission between ACHs and time for the receiving bank to credit the employee's account.

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The second improvement allows some types of payments, such as cash concentration transfers made in the interests of improving cash management, to be handled even more expeditiously. For example, a financial institution collecting funds on behalf of a corporate customer from another financial institution can initiate debits to those accounts as late as 9:00 p.m. Thursday for Friday settlement. At present, cash concentration transfers must be initiated at the same time as other ACH payments. This schedule change will allow corporations to collect funds from any financial institution in the Nation on an overnight basis.

At present, some 6,000 corporations, governments and other entities are making use of ACH services. The Federal Reserve, with the assistance of the National Automated Clearing House Association, has consulted with corporate officials and others to identify the ways in which they can best make use of the more economical and more secure movement of funds made possible by ACH services.

Larger corporations interviewed in the course of formulating the changes announced today indicated they are making use of ACH services for the electronic transfer of one or more of the following types of payment: direct deposit of managerial salaries and retirement benefits, the collection of preauthorized insurance premiums and credit card bills and payments or collections made to improve cash management. Such corporations include:

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| Allied Chemical Corporation | International Business Machines Corporation |
| Aluminum Company of America | Metropolitan Life Insurance Company |
| American Express Company | NCR Corporation |
| American Motors Corporation | TRW, Inc. |
| The Dow Chemical Company | United States Postal Service |
| Equitable Life Assurance Society | United States Steel Corporation |
| General Motors Corporation | Westinghouse Electric Corporation |
| Xerox Corporation | |

Allied Chemical, American Motors and General Motors are now using the ACH services for direct deposits of management payroll and are planning to use it for direct deposit of retirement benefits. Alcoa, Dow Chemical, and IBM are also using ACH services for their management payroll and are exploring its application to hourly payroll. NCR and U.S. Steel also have their direct deposit payroll payments sent through ACHs. NCR is considering ACH services for direct deposit of dividend payments while U.S. Steel is considering electronic transfer payments through ACHs for cash management purposes.

Among other major firms, American Telephone and Telegraph Company, Southern Pacific Company, and Standard Oil Company of California are actively studying the use of electronic payments.

Questions regarding these matters may be directed to our Check Processing Function (Tel. No. 212-791-6838 or 6334).

PAUL A. VOLCKER,
President.