

FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N.Y. 10045

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To: Depository Institutions in the
Second Federal Reserve District

You may have heard that the Federal Reserve is planning to enhance its ACH processing capabilities over the next couple of years. Enclosed is a brochure that outlines the Fed's plans in this area. The ACH services explained in the brochure will be made available to all depository institutions and processors that obtain ACH services from a Reserve Bank. As you know, the Federal Reserve Bank of New York provides Government ACH services to Second District depository institutions whereas the New York Automated Clearing House (NYACH) provides commercial and/or Government ACH services.

The Federal Reserve will continue to work closely with financial institutions and private sector operators to ensure that all ACH participants are prepared to take advantage of the enhanced services.

Sincerely,



Carol W. Barrett
Vice President

Enclosure

Fed ACH

The Next Generation



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Fed ACH

The Next Generation

The Federal Reserve System is quickly moving to a new era in payments processing. We are planning major changes in our payments services, and in the future, you will see a number of improvements in the Federal Reserve's Automated Clearing House service.

Four major Federal Reserve initiatives are currently underway that will significantly improve the efficiency, reliability and functionality of our ACH. Together, they will take the Federal Reserve's ACH into a new generation. In the next three years, ACH participants nationwide will begin to benefit from:

- An all-electronic commercial ACH network,
- Consolidated processing of electronic payments,
- New ACH software with enhanced functionality, and
- A new communications system, called FEDNET.

We have spent the last few years researching your needs and requirements for a future payments system. Now it's time to begin sharing our plans.

We are excited about the future and the opportunities it presents for improving the ACH. We also realize the challenges inherent in moving toward this new environment and it is our priority to ensure the transition is a smooth and successful one for you. We want to make sure you understand, and that you can prepare for and benefit from our new payments system. This is the first of several communications aimed at opening up the information flow between our organizations. We welcome your input as we move towards this new and exciting environment.

Here are the four initiatives shaping **Fed ACH: The Next Generation**.

ALL-ELECTRONIC ACH

All ACH participants have been moving towards electronic transmission of commercial ACH items. This initiative is well underway and will be completed by July 1993. An all-electronic ACH is more efficient and reliable for all users. Electronic transmission of ACH items means:

- More reliable and timely delivery of ACH items to receivers and their customers, as ground delivery of their items is eliminated. This allows ACH receivers to provide better service to customers since items can be posted earlier.
- Greater contingency capabilities. Electronic ACH data can be routed automatically to and from the Federal Reserve's contingency processing site in the event of a computer outage or local disaster at the primary processing site.
- A higher level of security since ACH payment information is encrypted during electronic transmission.
- An opportunity to improve ACH deposit schedules in the future.

By working together, financial institutions, Federal Reserve Banks and ACH associations have made significant progress towards a fully electronic ACH. The all-electronic network will serve as the foundation that supports a consolidated processing environment that will provide additional benefits and ACH service improvements.

CONSOLIDATION OF FEDERAL RESERVE AUTOMATION

In 1991, the Federal Reserve System made the decision to consolidate the mainframe data processing currently performed in all twelve Districts into three sites: Dallas, Texas; Richmond, Virginia; and East Rutherford, New Jersey. ACH, Funds Transfer, Securities Transfer and Accounting activity will be processed at the East Rutherford location.

Consolidation of Federal Reserve automation will improve the reliability, availability and cost-efficiency of critical computer systems. An added

benefit will be our ability to better support an increasingly complex interstate banking environment. Today, transacting business with multiple Federal Reserve Districts can be complicated. With ACH processing consolidated at one site, District boundaries will no longer affect ACH participants operating in more than one District. ACH participants will be able to originate items from an affiliate or processor in one District, have their ACH items delivered to an office located in another District and settle their items in an account in a third District. Products and pricing that were developed in the past only to support decentralized processing and interdistrict data flows will no longer be necessary.

Automation consolidation will give ACH superior contingency capabilities. A new computer processing platform and redundant equipment at the consolidated site will allow payments processing to continue in case of an individual computer malfunction. In addition, disaster recovery capabilities will be greatly improved. Key ACH information will be remote logged to a back-up site. If a disaster occurs at the primary processing site, the back-up site will be activated and ACH transactions will be automatically directed to that site for processing. A third processing site will also be available if a disaster ever rendered both the primary and backup sites inoperative.

Consolidated processing means service enhancements and changes will be available more rapidly to all ACH participants nationwide. Software will no longer need to be installed on every Reserve Bank computer. Instead, software changes will be installed and tested at the consolidated and back-up sites so all institutions will be able to take advantage of the changes and new services immediately. A shortened installation period will enable us to respond to market needs and new payments system requirements more quickly.

One important aspect of our future service is that your relationship with your local Federal Reserve Bank will be retained. You will continue to interact directly with your local District contacts to obtain service information, resolve problems and exchange ideas for improving ACH services. Your local Federal Reserve will have direct access to all the information needed to support your daily ACH operations. Each District also will have representation on Federal Reserve management groups and will continue to work with industry representatives to set the future direction for electronic payments.

NEW ACH APPLICATION SOFTWARE

New ACH software will take advantage of the consolidated processing environment and bring added functionality to the users of the Federal Reserve's ACH. The new software capabilities are based primarily on

three market research studies in which financial institutions of various sizes and automation capabilities were asked about current and future ACH needs. ACH participants told us they are interested in:

- A low-cost, dependable ACH,
- Improved deposit schedules,
- More flexible delivery times and options, and
- Immediate access to ACH payment and participant information.

This next generation of ACH software, to be introduced by 1993-1994, is being designed to address these customer needs in addition to the Federal Reserve and NACHA requirements for ACH. Here's a preview of some of the expanded capabilities of the new software.

■ ***Continuous Processing***

The future ACH system will support nearly continuous, around-the-clock processing. ACH files may be deposited at a time convenient to originators and files will be edited and processed on a flow basis. ACH files will be made available to receivers within four hours of deposit which will allow us to significantly improve deposit deadlines in the future, as market needs for later or new deposit deadlines arise.

■ ***Expanded Receiver Options***

ACH receivers will have more control over when and where they receive ACH files. Today, ACH files are typically made available after close of an ACH cycle. In the future, receivers will be able to select delivery options that accommodate internal scheduling and capacity requirements. In addition, financial institutions will be able to have specific types of ACH items directed to different terminals within their institution or to multiple locations throughout the country.

■ ***Online Access to Payment Information***

Institutions will have online access to information about the status of their ACH files in process and those that were processed previously. For example, if a customer expecting an ACH deposit indicates it was never received, the financial institution can initiate an online trace on that item to determine its disposition.

Online Access to an ACH Participant Database

A database containing information about Fed ACH participants nationwide will be available for online inquiries. This consolidated database will also be used to support ACH processing. Financial institutions will be able to access their own profile information or inquire about another institution's eligibility to receive commercial ACH items via the Federal Reserve. Eligibility information will also continue to be published in the Composite Receiver File which will become part of this database.

The new software will streamline basic ACH processing and keep the basic transaction fees as low as possible. It also will support "value-added" services for those opting to take advantage of additional functions and capabilities. Consequently, the new ACH processing environment will likely require some pricing changes - simplified transaction fees and new pricing components for optional services. In addition, the software is specifically being designed with flexibility in mind to accommodate and evolve with future business requirements.

FEDNET COMMUNICATIONS NETWORK

To support the new payments processing environment, the Federal Reserve will be installing a new communications network, called FEDNET. The new network will handle all data travelling between Federal Reserve offices, the consolidated processing sites and Fed ACH participants connected to the network. It will replace the current Federal Reserve Communications System (FRCS-80).

FEDNET will use the newest communications technology to provide improved reliability and transmission quality, and will support higher transmission speeds. It will automatically route ACH files to the appropriate consolidated processing site and direct outbound ACH files to the site designated by the receiver. FEDNET will support the Federal Reserve's new contingency capabilities by rerouting payments to alternate processing sites in a contingency situation.

Looking toward the future, FEDNET will be able to handle increased volumes and simultaneously accommodate future communication protocols such as Open Systems Interconnection (OSI) along with SNA protocols.

For more information on
Fed ACH: *The Next Generation*,
please call your local Federal Reserve Bank.

*All-Electronic
Commercial ACH
July 1993*

*Consolidation of
ACH Processing
1993-1994*

*Fed ACH Software
Introduction
1993-1994*

*FEDNET Installation
1993-1995*

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