

FEDERAL RESERVE BANK  
OF NEW YORK

[Circular No. 8324]  
April 21, 1978

Interregional Clearing and Settlement Services for ACH Associations

Interdistrict Settlement for Bankwire Transfers of Funds

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

Following is the text of a statement issued April 17 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today authorized Federal Reserve Banks to provide services necessary to tie together facilities for a Nationwide network for making payments electronically rather than by check.

The Board also approved other Federal Reserve services to facilitate transfer of funds among member banks over a privately operated wire network.

The Board said it expects these actions to enhance and improve financial services to individuals and to financial institutions; to encourage the use of electronic movement of funds as a more efficient and less costly alternative to check payments; and to stimulate the development of non-governmental services that will lower the cost of banking services to the public.

The Board said that it intends to publish a proposed schedule of charges for ACH services as soon as such a schedule can reasonably be developed. It is contemplated that such charges for ACH services will be considered in the context of possible charges for other Reserve Bank services. To achieve equity under such a program, allowance might be made for balances held by users at Reserve Banks.

The services approved by the Board were proposed for public comment—which has been favorable—last December 27. They are:

1. Providing Federal Reserve clearing and settlement services for electronic payments made through local or regional automated clearinghouse associations. This will permit the connection of these facilities into a national network for making fund transfers electronically rather than by check.
2. Providing Federal Reserve net settlement services to member banks to complete transfers of funds made over a communications network—known as Bankwire—owned by an association of banks.

A. *Bankwire* is operated by the Payment and Administrative Communications Corporation. It provides transfers of funds among some 200 banks throughout the country. Net settlement of Bankwire transfers by member banks will begin as soon as final arrangements are completed.

Under the terms of the arrangement with Bankwire, member banks will appoint Bankwire as their agent. Settlement for fund transfers over Bankwire will be made by crediting or debiting member bank reserve accounts. Bankwire is responsible for supplying the information needed to make settlement: net amounts to be credited or debited to which member banks.

B. Implementation of the Nationwide exchange of payments among automated clearinghouses will begin in May and is expected to be completed by year-end.

An *automated clearinghouse association* is a local or regional association of banks and other depositories agreeing to initiate and receive among themselves electronic transfers of funds authorized by customers of member financial institutions. Such electronic transfers are made only on behalf of customers who request them. Depositors who prefer to use checks can continue to do so.

The Federal Reserve currently operates 32 *automated clearinghouses*. These consist of computers—used also for other Federal Reserve functions—where payment instructions recorded on magnetic tapes are sorted and cleared. The payment instructions are from customers of member banks and other financial institutions that are members of automated clearinghouse associations. At present, these electronic payments are generally cleared locally.

The planned Nationwide connection of automated clearinghouses will make possible the interchange of electronic payments by some 9,000 banks and 1,000 thrift institutions that are members of the National Auto-

mated Clearing House Association. When the linkage has been made, a member bank or other financial institution that is a member of an automated clearinghouse association—for instance, in Dallas—will be able to present payment instructions on magnetic tape to the nearest Federal Reserve Bank's electronic clearinghouse. Such tapes bear instructions to make payments to financial institutions that are members of automated clearinghouse associations in other parts of the Nation. The Federal Reserve Bank that receives the electronically recorded payment instructions will sort them and forward them to their destinations.

This parallels the sorting and forwarding of payment instructions recorded on checks. But the electronically recorded payment instructions will be forwarded over the Federal Reserve's communications system, rather than by mail or courier.

The Federal Reserve office serving the area where payments are destined to be made—for instance, the San Francisco Federal Reserve Bank—will sort and forward the payment instructions to the indicated depositories. The depositories involved—in this example, members of the Dallas and the San Francisco clearinghouse associations—will debit the accounts of the customers who are making payments and credit the accounts of customers receiving payments.

Two recently initiated programs paved the way for and demonstrated the feasibility of such interdistrict electronic payments. One is the ongoing Treasury program for direct deposit of recurring Federal payments. The other program was a pilot test of interregional electronic payment transfers conducted during most of last year by the Federal Reserve and the National Automated Clearing House Association.

The program approved by the Board today does not alter the Treasury's direct deposit program.

Printed below is the text of the Board's Order in this matter. Questions may be directed to our Check Processing Department (Tel. No. (212) 791-5319).

PAUL A. VOLCKER,  
*President.*

**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**  
**Announcement of Actions Regarding Net Settlement of Member Bank**  
**Reserve Accounts and Automated Clearing Houses**  
[Docket No. R-0138]

*SUMMARY STATEMENT:* On December 27, 1977, the Board of Governors published for comment notice of its intention to take two actions to improve its funds transfer and clearing services (43 FR 1005). The Board has considered the comments received and the overwhelming majority of them support both proposals. The Board has decided to go forward with both actions.

The first action concerns the request from a group of member banks participating in a private clearing and settlement organization that Federal Reserve Banks make available to them a net settlement service for their funds transfer messages. The Board has approved this request contingent upon satisfactory operating agreements being entered into between Bankwire and the Federal Reserve Banks. In the second action, the Board has reaffirmed its plan to authorize Federal Reserve Banks, by year end 1978, to provide interregional clearing and settlement services for funds transfers originated at automated clearing house associations. The Board believes that these actions will improve the efficiency of the nation's payments mechanism and encourage private-sector development of electronic payments services for the public.

*FOR FURTHER INFORMATION CONTACT:*  
James R. Kudlinski, Director, Division of Federal Re-

serve Bank Operations ((202) 452-3985); or Allen L. Raiken, Associate General Counsel ((202) 452-3625), Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

*SUPPLEMENTARY INFORMATION:*

I. INTER-DISTRICT NET SETTLEMENT BY FEDERAL RESERVE BANKS FOR MEMBER BANKS.

The Board of Governors has considered a request from an organization of member banks that Federal Reserve assistance be provided to member banks participating in an independent privately owned organization providing interbank funds transfer services. The member banks participating in this organization have requested assistance from the Federal Reserve System in an arrangement to use their reserve account balances at Federal Reserve Banks to settle for payment transactions that have been exchanged through a private clearing organization known as the Bankwire to which these member banks belong. Bankwire is operated by the Payment and Administrative Communications Corporation, a privately owned corporation. This settlement arrangement will allow the Federal Reserve member banks in this organization, throughout the country, to transfer among themselves payment instructions via

Bankwire and then to settle for those funds transfers on that same day by means of appropriate adjustments to their reserve account balances.

Comments received from member banks participating in the Bankwire organization and others have indicated that significant efficiencies in current clearing and settlement services can be achieved through the use of the requested net settlement service. The service is described in more detail in the Board's earlier announcement concerning this action. The vast majority of comments received by the Board supported the Board's view that adoption of this proposal will enhance the settlement services offered to member banks. The Board expects that the availability of these settlement services will facilitate member bank participation in private-sector payments clearing arrangements and will result in same-day funds availability for member banks participating in this private-sector clearing organization.

The Board views these services as consistent with the Federal Reserve System's commitment to provide assistance to private sector initiatives directed towards improving the efficiency of the nation's payments mechanism. Providing this net settlement service should permit the Bankwire organization and its member banks to offer improved funds transfer services to the public. Since negotiations have not been completed concerning the details of the agreement setting forth the terms and conditions upon which the net settlement service will be provided, the Board's approval of this request is contingent upon a mutually satisfactory agreement being reached between Bankwire and the Federal Reserve System.

## II. INTERREGIONAL CLEARING AND SETTLEMENT SERVICES THROUGH AUTOMATED CLEARING HOUSES.

The Board has approved the establishment of an Interregional Automated Clearing House system, which the Federal Reserve System intends to have operational by the end of 1978. In its prior notice, the Board indicated its belief that establishment of an interregional clearing facility will promote the development of a more efficient nationwide payments system available to depository institutions, and will provide research and development data and experience that should be of assistance to other potential developers of automated clearing services. The Board based its view, in part, upon the results of the recently completed pilot study. With few exceptions, the comments received strongly support the establishment of an interregional ACH system by the Federal Reserve.

Since 1968 the Federal Reserve System has assisted groups of depository institutions in the development and operation of automated clearing houses (ACHs) that provide facilities for the exchange of payment information on magnetic tape (1976 *Fed. Res. Bull.* 481). These facilities were developed as a means of reducing the growing volume and increased cost of processing paper checks. At the present time, the Federal Reserve provides processing, settlement and delivery services on a regional basis for 30 automated clearing house associations and makes available settlement and delivery

services for two privately operated ACHs. These facilities are also used in connection with the Federal Reserve's participation as fiscal agent in the Federal government's recurring payments program. At the present time the major portion of Federal Reserve System ACH transactions consist of direct deposit and other funds transfers for the United States Treasury.

The feasibility and potential benefits of a nationwide ACH facility have been demonstrated in the Treasury's direct deposit program and in the pilot test of interregional commercial payments conducted during 1977. In addition, the large number of comments received favoring establishment of this interconnected ACH system attest to the benefits perceived by financial institutions and others as resulting from such a system. The Board believes, therefore, that the probable longer run efficiencies resulting from interconnection of all operating ACH facilities justify the Board's action at this time to provide these services to the Treasury, member banks, and other members of ACH associations. Such interconnection is likely to encourage the private sector to provide more efficient and innovative payment services to the public. Moreover, the Board continues to regard its action to interconnect the current regional ACH facilities as a research and development program that will provide technical data and experience in the operation of nationwide ACH facilities. The Federal Reserve System intends to make this information available to those in the private sector interested in the development of alternative systems.

At the present time, the Board views as an appropriate activity its participation in a nationwide ACH facility that provides services to member banks, other depository institutions, and the U.S. Treasury. As indicated in its prior notice of this action, the Board will continue to reevaluate Federal Reserve participation in the ACH program in order to assure that its actions remain consistent with its payment mechanism responsibilities.

In this connection, the Board has considered carefully the comments of the Department of Justice and others that have urged the Federal Reserve to reduce and ultimately to terminate its current involvement in the operation of electronic payment systems. It has been argued that continued Federal Reserve presence may result in a Federal government payments system monopoly precluding the development of private sector alternatives. Similar concerns have been expressed by those urging that a schedule of charges for Federal Reserve ACH and other services be put in place prior to any action to make a nationwide ACH system operational.

The Board has no intention to establish and does not believe that its ACH activities will lead to a governmental monopoly in the field of electronic payments. The record upon which the Board has relied establishes that, at the present time, alternative private sector sources do not exist having the capability of providing an adequate level of services on a nationwide basis. Although the Board expects the private sector to develop the capability to provide interregional ACH sources in the future, the Board considers it to be extremely unwise and inconsistent with its long-standing payment mechanism responsibilities to withdraw totally from the electronic payments area in the expectation that such action

would eventually lead to the development of a nationwide private sector ACH or other payments system network. Rather, the Board intends to proceed cautiously with the ACH interconnection program with an awareness of the effect that its actions may have on private sector developments. The Board recognizes that implementation of a schedule of charges for ACH and other Federal Reserve services would reduce the impact of a Federal Reserve operated interregional ACH system on private development. However, imposition of such charges at this time would also make more severe the burden borne by banks that are members of the Federal Reserve

System. Therefore, in the absence of relief from that burden, any pricing structure must take the burden of membership into account. The Board intends to publish a proposed schedule of charges for ACH services as soon as such a schedule can reasonably be developed. It is contemplated that such charges for ACH services will be considered in the context of possible charges for other Reserve Bank services. To achieve equity under such a program, allowance might be made for balances held by users at the Reserve Banks.

Board of Governors of the Federal Reserve System,  
April 14, 1978.