



MEMORANDUM

Date: March 18, 2014
To: Survey Participant
From: Scott Murray at Market Platform Dynamics
Re: NACHA Same-Day ACH Incremental Costs Survey Instructions

NACHA is evaluating the feasibility of enabling ubiquitous same day ACH (“SDA”) processing for the ACH Network. The assumption is that a rule change would be required so that all RDFIs would receive and process SDA¹ transactions for the institution’s customers.

We have been asked by NACHA to conduct a survey to understand the on-going operating costs that RDFIs would incur as a result of receiving SDA transactions. This is not limited to costs incurred in the ACH function but includes all incremental costs that the institution would incur as a result of receiving SDA transactions. We would expect that this survey would require input from several functional areas within your institution beyond ACH operations such as cash management and customer service. This survey is part of an overall effort to assess the industry’s costs and potential transaction volume for SDA; the results will be used to refine the design of an SDA proposal.

Your responses will be kept strictly confidential as discussed further below; only data aggregated across financial institutions will be released to NACHA. Because the financial institutions participating in the Survey may to some extent compete with one another, great care must be taken to avoid any communications between competitors that may inadvertently raise antitrust concerns. You must review and follow the requirements presented in the Appendix when discussing the survey outside your institution.

For purposes of estimating costs, we are providing an SDA “strawman” – the outline of a potential rule that provides the parameters of a ubiquitous SDA capability, for which costs can be estimated. The SDA strawman also assumes that the implementation of SDA would occur in three phases, which are described below.

All phases would have two new SDA processing windows. The deadline for ODFIs to submit files of SDA transactions to their ACH Operators would be approximately 10:00 a.m. ET and 3:00 p.m. ET; output files would be available for RDFIs at approximately 11:00 a.m. ET and 4:00 p.m. ET, respectively. The return timeframes and windows would not be changing.

The implementation phases would then add settlement requirements for same day ACH credits and debits as follows:

- **Phase I:** ACH credits would be eligible for same day settlement (i.e., RDFIs would receive same day credits, but not debits)². Same-day transactions would be limited to a

¹ This would not represent an additional SEC code but faster processing of the existing transaction.

² International ACH transactions (IATs) would not be eligible for same-day settlement.

maximum of \$25,000 per transaction. Settlement for same-day credits would occur at 5:00 p.m. ET. RDFIs would be required to make funds available for cash withdrawal from same-day ACH credits by the end of their processing day. Phase I should be assumed to be implemented by September 2016.

- **Phase II:** ACH debits would be eligible for same day settlement; all other aspects remain the same as in Phase I. Phase II should be assumed to be implemented by September 2017.
- **Phase III:** Same-day ACH credits and debits processed in the morning window would settle at 12:00 noon ET. Same-day transactions processed in the afternoon window would still settle at 5:00 p.m. ET. RDFIs would be required to make funds available for cash withdrawal from same-day ACH credits by 5:00 p.m. RDFI local time. Phase III should be assumed to be implemented by March 2018.

The purpose of this survey is to obtain your best estimates related to the on-going operating costs, if any, you would incur as an RDFI due to implementation of SDA as stated above. Please limit your responses to RDFI activities only, even if you also operate as an ODFI, or if you think you might in the future. As such, the focus of this survey is to fully understand the costs related to **receiving** SDA transactions.

Market Platform Dynamics has entered into a strict confidentiality agreement with NACHA which requires us to keep all of the material we collect confidential. We will not share data provided by individual financial institutions with NACHA, members of NACHA, or any other individual or firm.³ All information we report will be based on aggregating data across financial institutions in a way that will prevent the disclosure of information for any individual institution.

There are three categories of information we would like to collect regarding your activities related to ACH transaction processing.

Basic Business Data

This will provide us the basic framework to understand your institution, how active you are in ACH transaction processing, and how you process ACH transactions today. The attached addendum reviews the basic business data we request.

On-going Operating Costs

We would like to understand what incremental on-going operating costs you would incur as a result of having to receive, process, settle, and otherwise handle SDA transactions that you would not incur in the absence of SDA. This should include any increase in costs that would be required by the implementation of SDA and would result from the transaction being conducted under the SDA rules rather than the current rules. These costs could include any costs associated with risk or risk management activities to reduce risk or the increased costs from fraud or mistakes, for example. The attached addendum reviews the types of on-going

³ Your data might be required to be disclosed if so ordered by a court of law; however, in that event we would urge the court to protect the information by a confidentiality order or other means that would limit its use to the particular proceeding in which disclosure is ordered and would prevent its commercial use and public dissemination.

costs that we would like you to estimate.

Please feel free to provide as much commentary as you think would be useful for us to evaluate any cost types that might overlap or be difficult to allocate between originating and receiving activities. If there are costs that you would incur that we have not asked for, please identify those for us as well.

It is possible that the magnitude of the incremental costs per transaction will depend on the volume of SDA transactions you process. We therefore ask you to provide estimates of incremental costs under three different assumptions about the number of SDA transactions you would process. In each case, we ask you to assume that the total number of ACH transactions is the same as your actual ACH received volume for 2013. However, a higher proportion of those transactions would be SDA transactions. Please assume the following SDA volume.

- The assumption that 5% of your current ACH volume will convert to SDA transactions.
- The assumption that 10% of your current ACH volume will convert to SDA transactions.
- The assumption that 25% of your current ACH volume will convert to SDA transactions.

Additional Considerations

In this section, we are asking for your insights on several topics related to the implementation of SDA. These questions are primarily qualitative in nature and supplementary to the prior sections.

Final Instruction

Please limit your cost estimates to those related to your role as a RDFI only. We ask that you complete all information in the survey to the best of your abilities. If any question is not applicable, please mark it “N/A.” If any question is unknown or not quantifiable, please note it “DK.” If your cost will be zero, please enter “0”; however, please reserve “0” only for those entries in which your best estimate is that the cost for the corresponding item is 0. Please add commentary wherever possible or needed to provide additional insights for your response.

We want to thank you in advance for taking the time to help us understand the full impact on RDFIs of implementing the proposed SDA rules change. Please return the completed survey by Wednesday, **April 30**, to **SurveyResults@marketplatforms.com**.

ADDENDUM

Data Elements Requested in the Survey

This addendum provides more details about the types of information and incremental cost estimates that are being requested in the survey. While some, or none, of them may apply to a given institution, we appreciate your thoughtful review of the requirements needed to implement and process SDA and the potential impacts on cost elements within your organization.

The following sections describe the types of data elements we request.

Basic Business Data

1. Financial Institution size and type
 - a. ACH transaction volume:
 - i. ODFI Credits
 - ii. ODFI Debits
 - iii. RDFI Credits
 - iv. RDFI Debits
 - b. Institution asset size.
 - c. Institution type (e.g., Commercial Bank, Credit Union, etc.).
2. ACH Processing
 - a. How you receive files
 - b. Frequency of receipt
 - c. Operator used
 - d. Software used
3. Core Systems processing
 - a. Timing of processing (e.g., real-time vs. batch)
 - b. Software utilized.

On-Going Operating Costs

Since each phase shortens the time frame for certain activities that your institution would have to perform related to SDA transactions, we want to assess any increased on-going operating costs, as compared to your current ACH processing schedule, including risk management. The categories below merely reflect possible areas of costs. The survey leaves opportunity for each financial institution to supply costs which are not identified by one of these areas. Finally, please note that these expenses should reflect your own internal costs, not those of a service or processing vendor/provider.

One area of costs relates to incremental staffing. For example, the SDA rules may result in incremental staff requirements. In addition, activities could potentially move among current

shifts, requiring additional shifts and/or supervisory positions.

We ask that you provide cost estimates assuming that SDA has been fully implemented in Phase III for both credit and debit transactions, with settlement at both noon and 5:00 ET with credit funds being made available by 5:00 pm local RDFI time. The last two questions ask you to estimate what percentage of the incremental costs you would expect to incur during the times when SDA is partially implemented during the time periods for Phase I and Phase II.

Types of potential incremental operating expense associated with SDA:

1. Incremental staff costs to receive and process SDA transactions. This might include the costs of incremental staff that would be needed to handle the compressed time frame during which these transactions would need to be processed. Costs should include the fully allocated costs of staff including taxes and benefits, office space, utilities etc. that would be incurred by the institution.
2. Incremental staff costs for exception processing of SDA transactions. As stated above, this should carefully consider if additional staff is needed to handle compressed timeframes. If so, the cost should reflect all associated expenses.
3. Additional on-going operating costs, increased expense associated with operational, financial and fraud risk processing or management resulting from the compressed time frame of SDA transactions. This would include any financial risk that might be incurred and processing associated with unwinding incremental fraudulent or erroneous transactions.
4. Incremental staff time required for training on SDA transaction processing. Note this should reflect ongoing training related to SDA versus one-time investment costs of preparing training material which would be reflected under the section for "Other Costs Not Captured".
5. Incremental impact on the bank's P&L as a result of the net change in balances from SDA transactions relative to the existing schedule for ACH transactions. For example, this may include items such as costs associated with reserve levels, changes to investment processes as well as changes in float.

Additional Considerations

1. To the extent a portion of your ACH processing is outsourced or managed by a third-party provider, we are interested in any insights you would have. This could include anticipated increased expenses based on known or projected estimates or any other changes that may result from SDA. As a result, we are including a couple open-ended questions:
 - a. As an RDFI, do you use a 3rd party processor? If so, in what capacity?
 - b. Based on prior experience and the proposed SDA requirements, what would your general expectation of incremental processing costs be considering SDA transactions?
2. Would it increase your costs significantly to make funds available after the 12:00 noon ET settlement window in addition to the 5:00 pm settlement window, as shown in Phase III?

APPENDIX

REQUIREMENTS FOR PARTICIPATION IN THE SAME-DAY ACH SURVEY PROCESS (“Survey”)

Because the financial institutions participating in the Survey may to some extent compete with one another, great care must be taken to avoid any communications between competitors that may inadvertently raise antitrust concerns. You must review and follow the requirements below when discussing the Survey outside your institution.

Content of Discussions

- First and foremost, Survey participants should not disclose, discuss, or exchange proprietary information, including but not limited to the following topics, with any other participant(s) or financial institutions. All communications on these topics should be strictly limited to NACHA and this firm:
 - Actual or approximate dollar amount of any category or type of cost, fee, price, discount or incentive;
 - The type or amount of any fees that might be charged to customers;
 - Revenues or profits that your institution might gain or lose as a result of the adoption of SDA processing; or
 - How your institution would market or support a business investment in SDA, if made a final rule.

Procedures for Discussions

- It may from time to time be necessary to discuss with participants the Survey methodology, guidelines for compiling responses to the Survey, and other similar topics. Such discussions should only occur during a meeting or conference call scheduled by NACHA or by this firm.
- Survey participants should not exchange emails or other communications about the Survey among themselves outside of such scheduled meetings or conference calls.
- A lawyer with antitrust expertise representing NACHA shall be present during all such meetings or discussions among participants.
- Any written materials discussed at meetings or on calls must be reviewed in advance and approved by antitrust counsel representing NACHA.