

July 8, 2015

Governors Jerome H. Powell and Lael Brainard
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: The Electronic Check Clearing House Organization Request for a Competitive Impact Analysis Regarding the Reserve Banks' Check Image Services

Dear Governors Powell and Brainard:

The American Bankers Association (ABA) submits this letter to register its support for the Electronic Check Clearing House Organization (ECCHO) request that the Federal Reserve Banks' check imaging services be subject to a competitive impact analysis. The dramatic shift of check processing from paper-based to electronic images has changed the way the Federal Reserve Banks and the private sector provide check clearing services. The further automation of check processing via imaging is beneficial, but there is concern that certain statutes provide the Federal Reserve Banks with advantages over their private sector competition.

In its May 20, 2015 letter to the Federal Reserve Payment System Advisory Committee (the "Committee"), ECCHO requested that the Committee undertake or request the Board to undertake a de novo competitive impact analysis of the Reserve Banks' check image services. Subsequently, we have learned that the letter has been directed to the Committee on Federal Reserve Bank Affairs. ABA strongly supports the request to conduct a de novo competitive impact analysis as outlined in the ECCHO letter, including the opportunity for public comment on the matter.

Under the Regulation CC Same Day Settlement rule, any private sector collecting bank could present a paper check to any paying bank without the need to have any prior agreement in place. Under the same rule, any private sector bank could present a paper check to any paying bank without a fee and receive same day settlement. This rule was designed to address the competitive advantage that the Reserve Banks have over the private sector in processing paper checks.

The Regulation CC Same Day Settlement rule does not apply to check image transactions resulting in there being no requirement that paying banks accept check images from collecting banks. Many paying banks only have agreements in place to accept check images from Reserve Banks. This requires collecting banks to either print out substitute checks to present to the paying bank or to route electronic images through the Reserve Banks and absorb the fees for doing so. Both of these options are inefficient and place private sector collecting banks at a disadvantage to the Reserve Banks in offering check image collection services to depository banks.

The Private Sector Adjustment Factor (PSAF) requires that the Federal Reserve establish fees for the services it provides, such as check clearing, that include all direct and indirect costs. The inclusion of all of these cost factors is meant to ensure the Reserve Banks and the private sector banks compete on a level playing field. The last comprehensive review of the PSAF took place more than ten years ago and is not reflective of the current day check image-based environment. ABA supports ECCHO's request that the PSAF be reviewed in connection with the requested competitive impact analysis.

Thank you for considering these comments in support of the ECCHO request for a competitive impact analysis of the Reserve Banks' check image services.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen K. Kenneally". The signature is fluid and cursive, with the first name "Stephen" and last name "Kenneally" clearly legible.

Stephen K. Kenneally
Vice President

cc:

Board of Governors of the Federal Reserve System
Governor Daniel K. Tarullo
Louise Roseman, Director, Reserve Bank Operations

Federal Reserve Bank of New York
William C. Dudley, President

Federal Reserve Bank of Boston
Eric S. Rosengren, President

Federal Reserve Bank of Minneapolis
Narayana Kocherlakota, President

Federal Reserve Bank of Atlanta
Marie Gooding, First Vice President