May 4, 1998

Ms. Cynthia L. Johnson
Director
Cash Management Policy and Planning Division
Financial Management Service
U.S. Department of the Treasury
Room 420
401 14th Street, S.W.
Washington, D.C. 20227

Re: Department of the Treasury
Fiscal Service
31 CFR Part 210
Federal Government Participation in the Automated Clearing House

Dear Ms. Johnson:

The Treasury Management Association (TMA) welcomes the opportunity to comment on proposed rules that will govern the use of the Automated Clearing House (ACH) system by the Federal government.

TMA represents over 12,000 treasury professionals who, on behalf of over 4,000 corporations and other organizations, are significant participants in the nation's payments system. Organizations represented by its members are drawn generally from the Fortune 1,000 companies and the largest of the middle market companies. Many of TMA members' organizations receive payments from Federal government agencies and thus have a sizable stake in the development of efficient procedures for use of the ACH to implement the mandate to make all government payments via electronic funds transfer (EFT).

TMA strongly supports the Treasury's proposal to adopt ACH rules as the rules governing all government ACH credit and debit transactions, with certain exceptions. Adherence to standard, time-tested, industry rules produces cost and labor saving efficiencies, reduces opportunity for errors, and promotes usage.

ACH#014

7315 Wisconsin Avenue, Suite 600 West
Bethesda, Maryland 20814

Tel: 301-907-2862 www.tma-net.org Fax: 301-907-2864

Nevertheless, as the Treasury points out in its proposal, additional measures are needed to increase the participation of vendors in the government's ACH disbursement program, which remains low despite government efforts to encourage enrollment.

TMA shares Treasury's interest in moving to a more secure and efficient electronic means of transacting business and reaffirms its long-standing support of the government's transition from paper to electronic payments. The Association's comments will deal primarily, therefore, with the causes and prospective solutions for the low EFT participation by government vendors and grantees. We will also comment on certain ACH rules which the Treasury proposes to preempt in part.

Systemic barriers to non-receipt of remittance data by vendors

The Treasury's Financial Management Service (FMS) states in its proposal that it "understands that the primary reason vendors do not use EFT is the non-receipt of remittance data with their payments." It has frequently been acknowledged that many financial institutions lack the ability to pass along remittance information to their customers.

In early 1998, TMA conducted a major survey of its members to determine the barriers, benefits and incentives for migrating from checks to electronic payments. The Association's research revealed these additional obstacles to the adoption of electronic payments by businesses:

- Lack of systems integration--e.g., from treasury to general ledger--was considered a barrier to greater use of electronic payments by over half of respondents;
- The cost of additional software and hardware was the second most important inhibiting factor among non-users of EFT.

The Federal Reserve's recent announcement of its plans to distribute to financial institutions low cost remittance delivery software may play a role in reducing barriers to EFT usage--to the extent that the software is implemented by these financial institutions. The Fed's Financial EDI software will enable them to deliver payment-related remittance information to their customers by e-mail, fax or hard copy report.

These "low-tech" delivery mechanisms--despite the drawback of manual processing--will not require significant systems expense by recipients, and thus may overcome the objections of companies for whom cost is an EFT inhibitor. However, elimination of barriers to electronic payments will also depend, in part, upon the installation of integrated, automated systems at receiving companies.

Government barriers to use of EFT by vendors

The Treasury's proposal seeks comment on whether the ACH rules amendment which requires the RDFI to provide remittance information upon request will adequately address vendors' concerns.

An ACH rules amendment will not address vendors' concerns about remittance information because the information that government agencies provide to RDFIs is, according to many TMA members, often inconsistent, uncoordinated, incomplete, and technically incorrect.

TMA members report that there is no standardization in the forms that the various government agencies require for vendor enrollment, no uniformity in remittance delivery methods and even, at times, no request for a bank account number. The information in addenda records is sometimes so technically flawed that it cannot be processed by banks' receiving systems.

The treasury officer of a multi-billion dollar company reports that "the biggest factor that stands between us and automating government payments is the non-conformance to supplying our 16-digit account number with the payment....We have had to put together a manual process which still allows the government to initiate EFTs to our bank accounts, but the notification of receipt is manual and the posting of the payment may and will be delayed."

The government can solve many of its EFT payments problems and increase vendor participation by reforming its own procedures. Treasury should require standardized, uniform implementation of the EFT mandate across all government agencies. TMA urgently recommended this step in its comment on 31 CFR Part 208, and strongly repeats it here.

The Treasury's ACH procedures should be uniform and consistent. Enrollment should be automated and centralized. Vendors dealing with the Federal government should follow a single procedure, not fifty different variations. Transmission options should be standardized and formats syntactically correct: CTX delivered to the EDI-capable banks and CCD+ to banks that are not EDI capable.

Government impact on EFT adoption

If the federal government succeeds in organizing a coordinated, efficient implementation of the EFT 99 mandate, the stimulus to the use of EFT by businesses can be significant. In TMA's survey on the migration of checks to electronic payments cited above, the majority of respondents reported that the most important factor in their decision to adopt electronic payments was a mandate from the Federal government.

Preemption of ACH Rules

Treasury's proposed rule preempts in part certain provisions of the ACH rules. TMA comments on the following:

• Proposed Section 210.4(a) requires a receiving financial institution that accepts an authorization from a recipient of ACH entries to verify the identity of the recipient. This provision preempts the ACH rule that requires the originating financial institution to warrant the validity of the ACH authorization.

TMA supports proposed Section 210.4(a). The recipient is the customer of the receiving financial institution, which is in the best position to know its customer. New automated enrollment procedures require recipients to enroll through their financial institutions, reinforcing the relationship between the recipient and its financial institution.

• Proposed Section 210.8(a) requires a financial institution that receives a prenotification relating to government entries to verify the account number and at least one other identifying data element in the prenotification. ACH rules permit reliance on the account number only.

TMA supports proposed Section 210.8(a). The Federal government should once again assume a leadership role in achieving a more secure payment system for all originators by taking steps to ensure that funds are credited to or debited from the correct receiver. While recognizing the additional work required by financial institutions to verify an account name, for example, TMA would anticipate that automated procedures will be developed.

• Proposed Section 210.5(b)(2) sets forth rules for benefit payments deposited into an investment account established through a securities broker or dealer. Provisions of this subsection specifying the name on the account and deposit insurance coverage of such an account are contrary to well-established industry practices of broker/dealers and the mutual fund industry. TMA recommends that government regulations should be guided by--and not preempt--securities industry procedures in these instances.

Summary of recommendations

TMA supports the Treasury's proposal to adopt ACH rules as the rules governing all government ACH transactions.

The distribution by the Federal Reserve of low-cost software to financial institutions will enable them to deliver payment-related remittance information to customers, overcoming some of the obstacles to EFT usage. TMA recommends that the Treasury and the Federal Reserve

coordinate an aggressive training and promotion campaign to encourage financial institutions to accept and use the software, which they have hitherto been reluctant to adopt.

TMA maintains that coordinated, uniform implementation of the EFT 99 mandate by Treasury will be a major factor in stimulating increased use of electronic payments by government vendors and grantees. Treasury should require the adoption of standard, consistent procedures across all Federal government agencies. Data transmission options should be standardized and formats syntactically correct. These elements of execution will be a critical supplement to the promotion and marketing campaigns that Treasury plans for EFT 99 among the vendor community.

TMA looks forward to continuing to cooperate with the Treasury Department in its implementation of the EFT 99 mandate. If you have any questions about the TMA comment letter, please call Arlene Chapman of TMA at 301-961-8825.

Sincerely,

Arthur R Cunningham

Arthur R. Cunningham, CCM
Senior Assistant Treasurer
Pioneer Hi-Bred International Inc.
Chair, TMA Government Relations Committee

Arlene S. Chapman

Arlene S. Chapman, CCM
Director, Payments and Standards
Treasury Management Association

TREASURY MANAGEMENT ASSOCIATION

7315 Wisconsin Ave., Ste 600W, Bethesda, MD 20814; Phone: 301-907-2862; Fax: 301-907-2864

MEMORANDUM

*** via fax ***

6 pages transmitted

TO: Donna Wilson, Financial Program Specialist
Financial Management Service

FROM: Arlene S. Chapman

DATE: May 4, 1998

SUBJECT: TMA comment letter

Attached is the TMA comment letter on the Treasury's proposed rules for 31 CFR Part 210.

Please confirm receipt by phone to Arlene S. Chapman at 301-961-8825.

Arlene

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