

May 11, 2022

Via Electronic Submission

Ann E. Misback  
Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, N.W.  
Washington, D.C. 20551

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Dear Ms. Misback:

Nacha welcomes the opportunity to submit this comment letter to the Board of Governors of the Federal Reserve System (the “Fed”) in response to the discussion paper *Money and Payments: The U.S. Dollar in the Age of Digital Transformation*.

Nacha views the effort to improve the U.S. payment system as a public-private partnership and appreciates the Fed’s efforts to date to coordinate discussion among industry participants. As the Fed explores how a Central Bank Digital Currency (“CBDC”) can complement existing financial services, Nacha will explore in this letter the potential for a CBDC to supplement existing inter-bank settlement mechanisms.

**I. Nacha and the ACH Network**

Nacha governs the thriving ACH Network, the payment system that drives safe, smart, and fast Direct Deposits and Direct Payments with the capability to reach all U.S. bank and credit union accounts. Just over 29 billion ACH Network payments were made in 2021, valued at \$72.6 trillion. The ACH Network is governed by the Nacha Operating Rules (“Nacha Rules”), which are developed and maintained by Nacha. In our role as the standards organization for payments through the ACH Network and author of the Nacha Rules, Nacha represents over 10,000 participating financial institutions of all sizes and types throughout the United States, both directly and through 10 Payments Associations. Nacha’s rules development process includes input and participation from all types of organizations, including both business and consumer end-user organizations, as well as the Fed and the Federal Reserve Banks.

**II. Nacha’s Participation in the Journey to Faster Payments**

Nacha has long participated in the dialogue facilitated by the Fed among payment industry participants regarding payment system improvements, including faster payments. From its vantage point as the industry organization charged with oversight of the ACH system and its ongoing evolution, Nacha has been closely involved in the introduction of faster payments, specifically the Same Day ACH capability that in 2021 processed more than 600 million payments transferring \$944 billion. With this capability, the modern ACH Network settles interbank payments four times per day.

### III. CBDC as a Potential Settlement Mechanism

A CBDC has the potential to disrupt consumer and business payments as well as deposit-based lending in fundamental and profound ways. To mitigate the negative impacts of such a disruption, but recognizing the broad desire to modernize existing payment systems by expanding interbank settlement capabilities, Nacha suggests an incremental approach to the introduction of a CBDC. Specifically, Nacha encourages the Federal Reserve to introduce any CBDC initially as a form of central bank money solely for the purpose of settling interbank payments. The settlement function of a CBDC could initially operate in parallel to the National Settlement Service (“NSS”), the Fedwire Funds Service, and the liquidity management tool, which is currently positioned to be limited solely to participation in FedNow. The role of the CBDC could evolve to become a primary settlement mechanism and liquidity management tool as confidence in its use builds.

Currently, the private-sector ACH Operator performs settlement of ACH payments through NSS. This means that the private-sector ACH Operator cannot settle ACH payments when NSS is closed – nightly from 6:30 pm ET to 7:30 am ET the next morning, as well as weekends and holidays. Nacha and others have advocated since at least 2013 for the extension of operating hours of NSS to facilitate faster ACH payments, which would provide immediate public benefits in terms of faster payments for payrolls, bills and invoices, account transfers, and many other uses.

In January 2015, the Fed released its *Strategies for Improving the U.S. Payment System Report* (“SIPS Report”) that included five strategies for the improvement of U.S. payment systems. Strategy 5 included a three-phase plan to implement the Fed’s intention “to enhance the [NSS] to make it more attractive as a settlement vehicle for private-sector arrangements” with the exploration of 24x7 operating hours.<sup>1</sup> While the Fed has made some incremental progress towards these commitments since the SIPS Report was published, more substantial progress on the modernization of payment system-agnostic interbank settlement and liquidity management has lagged. To the extent that the Fed is prioritizing a CBDC, that should not be done to the detriment of additional improvements to existing interbank settlement services. Accordingly, it seems reasonable to prioritize each of these strategies by exploring the potential of a CBDC to serve as a 24x7x365 interbank settlement mechanism.

Initial deployment of a CBDC for the limited purpose of settling interbank transfers offers several potential benefits. First, it would demonstrate the viability of the CBDC design and functionality among a community of regulated users. Second, it would enhance the functionality and capabilities of existing settlement services in ways that fulfill long-stated Fed goals. Third, it would enable the United States to supplement its monetary system with the benefits conferred by the technological advancement of digital currency, while allowing further time to assess the potential implications for disintermediation, access to credit and consumer privacy that could result from models that allow a CBDC to circulate more broadly in the economy. Finally, it would allow the private sector to innovate in the creation and use of stablecoins without direct

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<sup>1</sup> SIPS Report at 21.

competition from the central bank. Learnings from stablecoins could be applied to any eventual expansion of a CBDC to use by businesses and individuals.

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Nacha appreciates the opportunity to provide comments in response to the FedNow Proposal. If you have any questions regarding our comments, please do not hesitate to call me at 703-561-3943.

Sincerely,



William D. Sullivan  
Senior Director & Group Manager  
Government & Industry Relations