



CONFERENCE OF STATE BANK SUPERVISORS

January 13, 2014

## **Comments of the Conference of State Bank Supervisors on the NACHA Proposals to Improve ACH Network Quality by Reducing Exceptions**

The Conference of State Bank Supervisors (CSBS) appreciates the opportunity to comment on NACHA's proposal to improve ACH Network Quality. State supervisors have a keen and unique interest in efforts to improve the US payment system. Unlike any single federal regulator, most state bank supervisors license and regulate all of the financial intermediaries in the payments system: banks, credit unions, payday lenders, money transmitters and other non-depositories. This broad supervisory portfolio provides state regulators with a unique interest in the payment system and how the payment system impacts financial institutions, businesses, consumers and the general economy.

State supervisors also have an explicit obligation to ensure consumers in their jurisdiction are protected from harm when transferring funds. CSBS supports efforts that reduce customer disputes, returned transactions, and harm to consumers and businesses. Therefore, CSBS is supportive of NACHA's proposed changes to create economic incentives that encourage quality and accountability within the ACH network. The three proposed fees for erroneous data, notifications of change and unauthorized entry will create incentives to promote quality transactions and increased diligence by depository institutions when processing payments. State supervisors support robust oversight that includes the expectation that when Third Party Senders perform any of the obligations of an Originating Depository Financial Institution, that the Third Party Senders comply with the NACHA Operating Rules, as well as the requirement that at a minimum, Third Party Senders provide proof of the most recent ACH audit when the return rate threshold has been exceeded.

CSBS is concerned that a layered and complex payment system may ultimately allow illegal business activity (e.g. unlicensed online payday lending) to be conducted through the ACH Network. CSBS encourages NACHA to continue to improve due diligence requirements aimed at reducing the volume and mitigating the adverse effects of any illegal activity. State regulators would also request that enforcement actions pursuant to NACHA rules be made available to state and federal regulators.

Alternative forms of payment and the emergence of digital currencies are clearly drivers of change and awareness of the limitations and antiquated nature of the U.S. payments system. Efforts by NACHA to improve ACH network quality by reducing the incidence of exceptions and improve ACH Network integrity will contribute to necessary protections for consumers, businesses and other payment system participants.

We thank you for the opportunity to comment on this important initiative to improve the quality of ACH Network Quality and look forward to further engagement on ACH Network initiatives.

Best Regards,

A handwritten signature in black ink, appearing to read "John W. Ryan". The signature is fluid and cursive, with a long horizontal stroke at the end.

John W. Ryan

President & CEO