19

October 15, 2003

VIA E-MAIL

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Financial Management Service
U.S. Department of Treasury
Room 423
401 14th Street, SW
Washington, DC 20227

RE: 31 CFR, Part 210 – Government Participation in the Automated Clearing House (ACH) Network

To Whom It May Concern:

Thank you for the opportunity to comment on the proposed amendments to 31 CFR, Part 210. These comments are being submitted on behalf of the 1,913 financial institution members of Mid-America Payment Exchange, a regional not-for-profit payments association.

While we are generally supportive of the proposed amendments to 31 CFR, Part 210, input from our members suggest that there are several aspects of the proposed amendments that have the potential to cause undo operational burdens to financial institutions and businesses.

As a general comment, in 1999 when the Financial Management Service adopted the ACH Rules with only eleven exceptions financial institutions applauded this move, believing that the burden of unique rules and processing requirements for government items had been lessened. Several of the proposed amendments to 31 CFR, Part 210 will increase the unique and burdensome processing requirements for government entries, which is not desirable. Also, these proposed changes are likely to create confusion among consumers and businesses making payments to Federal agencies, and potentially increase customer services issues for financial institutions.

A.3. Conversion of Additional Instruments
Of greatest concern to financial institutions is the proposal to convert payment instruments such as money orders, traveler's checks, certified bank checks and credit card checks. These payment

instruments were intentionally exempted from check conversion in the ACH Rules with the realization that converting these items would increase the burden on financial institutions with respect to processing these items. It was also recognized that there is no effective way to gain appropriate authorization for conversion of these types of instruments.

In converting these instruments the endorsement and any security features are lost. The endorsement is a critical piece of the reconcilement process. When these instruments are converted to ACH entries reconciliation will become a costly, manual process. With respect to cashier's checks, since the serial number is not traditionally in the MICR line, the serial number will be lost completely. The security features are important to financial institutions in mitigating fraud losses. Converting these instruments reduces an institutions ability to identify fraudulent instruments.

While your request for comment acknowledges the use of debit blocks, the suggestion that items that are returned due to a debit block will be recreated as a paper draft is troublesome. The use of paper drafts will cause many of the same operational problems with respect to lost security features and MICR encoding that will be created with check conversion. Also, it is unlikely that a draft will be paid in situations where other cash management services, such as positive pay are being utilized.

A.2. Expanded Accounts Receivable Conversion Applications
For business checks converted to an ACH transaction at the point-of-sale or lockbox using the CCD Standard Entry Class Code it is difficult for a financial institution and their business customer to identify that the transaction is a converted item, as there is no appropriate place in the ACH format of a CCD entry to include the check serial number. In situations where a company has contracted with their financial institutions to provide cash management services, such as positive pay and automated account reconciliation, not having the ability to reference the check serial number creates tremendous obstacles. Even without considering the potential implications associated with cash management services, a business could have difficulty reconciling their account without a check serial number.

In light of these concerns and the imminent passage of Check 21, deferring these proposed amendments until Check 21 is implemented is recommended. After the Check 21 implementation date financial institutions and their customers will be better prepared to deal with the operational impact of a "convert all" philosophy. Implementing the proposed amendments to 31CFR, Part 210 in the short term will force financial institutions to make significant modifications to their operating procedures twice in less than a year.

B.1. Mandatory Use of R15 or R14 Return Reason Code
With respect to the proposal to mandate financial institutions to return Federal benefit payments as R15 or R14 when the financial institution is aware of the death of a recipient. We believe this is an appropriate requirement for initial returns after the institution becomes aware of the death of a benefit recipient; however, in cases when subsequent payments are received after an account has been closed it may be operationally challenging for an RDFI to identify benefit payments and return them R15 or R14. In many cases after an account has been closed entries to the account are automatically returned R02.

Again, thank you for the opportunity to comment on the proposed amendments to 31 CFR, Part 210 – Government Participation in the Automated Clearing House (ACH) Network.

Sincerely,

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