AMERICAN PAYROLL ASSOCIATION

November 7, 2019

Ms. Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Email: regs.comments@federalreserve.gov

Re: Federal Reserve Actions to Support Interbank Settlement of Faster Payments;
Docket No. OP-1670

Dear Ms. Misback:

The American Payroll Association (APA) thanks you for the opportunity to provide feedback concerning the proposal by the Board of Governors of the Federal Reserve System (Board) to develop a new interbank 24x7x365 real-time gross settlement service with integrated clearing functionality to support faster payments. The APA generally supports the development of faster payment systems because of the potential benefits for payroll professionals and the employees they pay.

About the American Payroll Association
APA is a nonprofit professional association of more than 20,000 payroll professionals in the United States. APA membership also includes representatives of large, medium, and small payroll service providers that are responsible for processing payroll for an additional 1.5 million employers. In total, APA represents professionals responsible for paying an aggregate total of one-third of the private sector workforce. APA's primary mission is to educate its members and the payroll industry regarding best practices associated with paying America's workers, while complying with applicable federal, state, and local laws. In addition, APA's Electronic Payments Committee promotes the expanded use of direct deposit and electronic payments.

Support for Faster Payments
APA believes that a faster payment system will be beneficial for both employers and employees. Historically, APA has supported proposals that would lead to faster payments, including support for Nacha's development and implementation of rules allowing same-day settlement of ACH transactions. Earlier this year, APA submitted a comment letter to the Board supporting its proposed changes that will allow for expanded same-day ACH capabilities, including a new settlement window later in the day (Docket No. OP-1664). APA encourages the Board to continue

its support of existing payment systems as it considers developing the proposed faster payment system.

A faster payment system will provide several payroll-related benefits. Historically, emergency payrolls have been challenging, requiring employers to work with their payroll processors or financial institutions to determine the right course of action. Many employers do not or cannot allow payroll to roll over to another day, so they often need to move into contingency planning mode to ensure employees will be paid timely. Termination pay is another scenario where faster payments may be beneficial. For example, certain states require that terminated employees be paid on the day of termination, and a faster payment system would provide employers a valuable payment option in this situation. There are other payroll-related scenarios where faster payments would be beneficial, including allowing for later deadlines to provide the actual hours worked by hourly employees, or depositing taxes (where allowed).

Interoperability With Private-Sector Settlement Services
The Frequently Asked Questions that were posted in conjunction with the request for comments included a discussion of how the proposed FedNow service will work with private-sector settlement services. APA agrees with the Board that nationwide reach should be a key objective of the new real-time payment system. For the new system to be useful for payroll, it must be ubiquitous. Payroll must be certain that payments will reach the receiving depository financial institution of each of its employees. Interoperability is essential. If an employer wants or needs to pay its employees in real time, it would be helpful if all banks, whether connected to the Clearing House's RTP Network or the FedNow network, are able to send and receive payments.

Dollar Limit on FedNow Transactions
The FedNow proposal sets the initial limit on transactions at $25,000. APA believes the $25,000 limit can be an impediment for employers or their payroll service providers (PSPs). According to APA's 2019 *Survey of Salaries and the Payroll Profession*, more than a third (38.6%) of APA members rely on payroll service providers to process their payroll. In all, nearly half of APA members (47.9%) have a PSP do some part of their payroll. The $25,000 limit can hinder PSPs if they need to request a credit transaction from a client to fund its payroll. While individual credit transactions initiated for each employee generally will not be affected by the $25,000 transaction limit (except for highly paid employees such as executives, entertainers, and athletes), a single transaction for an entire payroll could easily exceed $25,000. APA suggests removing the limit entirely to ensure these payroll transactions may be processed. If the limit is not lifted entirely, APA recommends setting it at $100,000 so that it will match the dollar limit on same-day ACH transactions (effective March 20, 2020).
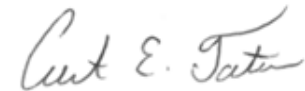
Conclusion
APA supports the development of capabilities allowing for faster payments. To be effective for payroll, employers must be assured that all banks can receive payments through the new system. APA recommends a higher dollar transaction limit to ensure that businesses can provide the funds for an entire payroll to their PSPs.

If you have any questions, please contact Curtis Tatum, whose contact information is provided below.

Sincerely,

Laura L. Cottrell, AAP
Chair, Electronic Payments Committee
American Payroll Association

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