

**PAYMENT SYSTEM OVERSIGHT
IMPLEMENTATION OF THE \$1MILLION ACH VALUE THRESHOLD 2 MAY 2016
ADVISORY #8**

Purpose

1. The purpose of this writing is to advise of the decision by the Bank of Jamaica (the Bank) to reduce the maximum value of transactions that are processed through the Automated Clearing House (ACH) to a maximum of \$1million with effect from 02 May 2016. The decision was informed by extensive discussions and is fully supported by the National Payments Council of Jamaica.
2. The new threshold of J\$1 million marks the culmination of the phased programme to significantly reduce, if not eliminate, settlement risk to the safety and security of the national payment system which is posed by large value transactions that are processed through the ACH for settlement on a deferred net settlement basis.

ACH Value Threshold Review

3. A review of transactions processed through the ACH indicated that transactions greater than or equal to J\$1mn represented approximately 80% (J\$2,296 billion) of the transaction values processed through the ACH and 2.7% of volumes as at 31 December 2008 (benchmark year).
4. After collaboration with the commercial banks, and the National Payments Council in 2010, it was agreed that reduction of the value for transactions processed through the ACH to a maximum of J\$1 million would reduce the settlement risk exposure to normal and acceptable levels. However, having regard to the various implementation challenges the decision was taken by the Bank to proceed on a phased basis as follows:

| | |
|------------------------------------|--------|
| a. Phase 1 – Jan. - Dec. 2011 | J\$5mn |
| b. Phase 2 – Jan. 2012 - Dec. 2013 | J\$3mn |
| c. Phase 3 – Jan. – Dec. 2014 | J\$2mn |
| d. Phase 4 – May 2016 | J\$1mn |
5. Under each phase of the programme commercial banks were set a target to migrate at least 50% (when compared to prior year volumes) of the number of payments and transfers valued above the defined threshold.
 - a. Under phase 1: there was a 53% reduction in the aggregate value of transactions equal to or greater than \$1 million processed through the ACH when compared to the aggregate values in 2008.
 - b. Under phase 2: there was a further 47% reduction in aggregate values for transactions equal to or greater than \$1 million processed through the ACH when compared to aggregate values for 2011.
 - c. Under phase 3 : a further 9% reduction in aggregate values was achieved in 2014 for transactions equal to or greater than \$1 million processed through the ACH when compared to aggregate values for 2013.



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ACH Value Threshold Phase 4 - Final Phase

6. Based on the assessment of the settlement risk posed to the Bank by large value transactions that are processed through the ACH for settlement in JamClear®-RTGS, discussions held with the National Payments Council and feedback obtained from commercial banks, it was recommended that the final ACH value threshold be implemented at J\$1mn, commencing in May 2016.
7. The implementation of the ACH value threshold of \$1million would result in an increase in payment system efficiency as alternate payment methods, such as JamClear®-RTGS, provide a safer and more efficient means of making payments as settlement of transactions are immediate, final and irrevocable.
8. Commercial banks will be required to target **100%** of all payments and transfers that are above the threshold of \$1 million for migration to JamClear®-RTGS.
9. The following will become applicable with regard to compliance with the stated target:
 - i. Commercial Banks that are fully compliant with the targeted threshold of J\$1million for those payments and transfers that are processed through the ACH will incur no charge.
 - ii. Commercial Banks that are not compliant with the targeted threshold of J\$1million for those payments and transfers that are processed through the ACH will incur a charge.
 - iii. Charges will be computed at \$5,000.00 for each transaction, over and above the threshold, that is effected via the ACH.
10. These arrangements will be reviewed annually.