



Bank of the Prairie

November 16th, 2018

Ann Misback, Secretary
Board of Governors of the Federal Reserve System
20th and Constitution Avenue N.W.
Washington DC 20551

Re: Docket No. OP – 1625 Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments, Request for Comments.

Dear Ann,

A special thank you to the Board of Governors of the Federal Reserve System for allowing Public comment on Docket No. 1625 Potential Involvement of the Federal Reserve in the Interbank Settlement System of the future. Bank of the Prairie, a \$140,000,000 Community Bank servicing consumer and business customers in Johnson County, Kansas and the Kansas City, Missouri metropolitan area is pleased to offer comment for the Board of Governors Consideration.

The Federal Reserve's longstanding public policy objectives for a payment system that is safe, efficient and accessible to all eligible banks on an equitable basis has been the main pillar of the United State Banking system for more the 80 years. This policy has put the good of the public first and foremost over that of any individual Bank or Company and has allowed the public to go about transacting business with little or no worry about how or if their transactions will process. In fact, if you ask the public how their checks, ACH transactions, wire transfers or debit card payments process, very few could begin to explain the detail. This sense of financial stability has always been and should always be the underlying reason for the Federal Reserve and the American banking system to exist.

With advances in technology occurring exponentially quicker every day, it is certain that the payment system should evolve with it. Quicker payment clearing is and should be a given in today's times and technology is certainly available to make it happen. But, just because technology is available to make payments almost instantaneous, relaxing even the slightest bit the core objective of a safe, efficient and accessible to all payment system should never be considered.

Without a question, the Federal Reserve should be involved and in fact should lead the way on developing a faster payment system. While America was founded on the basis of free enterprise and low government involvement, private sector would be hard pressed to hold the values of safe, efficient and equitable in balance as the Federal Reserve has done for many, many years. Capitalism will always find a way to maximize profits and doing so will undoubtedly leave unknowing or unwilling participants behind if they are too weak, uneducated or undercapitalized. The payment system should not be allowed to become a tool for the powerful to use over those who have less to offer.

The safe, predictable, sustainable and equitable movement of money for ALL CONSUMERS AND BUSINESSES should be the goal of the payment system. Like a highway or road system which is owned and operated by Federal, State and Local governments and everyone who drives on them drives on the same roadway no matter their level of status, the payment system should be the same. Any deviation from

this will only open the door to those who wish to set limits on others and those who get limited by others. I firmly believe the Federal Reserve should manage the payment system.

In direct response to specific questions offered in the docket, I would like to provide the following thoughts:

1. *Is RTGT the appropriate foundation for interbank settlement of faster payments? Why or why not?*
The RTGT method of payment would be an appropriate method to manage faster payments when the payment is controlled and initiated by the sending institution similar to the way wire transfers are currently processed via fedline or correspondent bank wire management activities. The sending or payment pushing institution would have to have knowledge of customer deposit balances available for transmission at the time of the push to properly manage their fed, correspondent bank or clearing account balances available to clear item or items and they should have knowledge of the balance of the sender in advance of the transmission. The sending institution would need to have technology available to manage payments on the 24x7x365 demand cycle to offset the need for a human to initiate the transaction. In the RTGT process, technology basically takes the place of the human currently in the transaction. RTGT driven by the receiving or pulling institution would need to be driven by some type of preauthorization from the payor prior to releasing funds within the transaction.
2. *Should the Reserve Banks develop a 24x7x365 RTGS Settlement service? Why or why not?*
The Federal Reserve should develop a RTGS settlement service to ensure that all the public receives clear benefit and that the service is equitable to all. This question should take precedence over all other questions presented in this request for comments. The United States of American enjoys the most trusted and sound financial system on the planet due to the simple fact that the public **TRUSTS** the system and has done so for almost 100 years. Hundreds of millions of people transact billions of transactions a year for trillions of dollars and think little of how or if the system will work. They just know their payments come and go as they should. That same level of trust must exist in the 24x7x365 world and should in fact be at a higher level than is currently in place. Allowing companies, that are in the business to serve shareholders and not every single person participating in the system, to manage the payment system would open the system up to those that will only focus on the profit margin and not the people that they are supposed to serve. In addition, companies can be controlled by foreign entities or governments that may not have the best interest of the people using the system. Allowing more than one private company into the payment system will only drive uncertainty due to different policies, procedures and attitudes toward the process. A consistent and concise set of rules that allow for stability and a traffic cop (i.e. the Fed) allows for the smooth flow of transactions based on trust. Allowing a fragmented payment system within the United States will only create competition within the fragmentation and in all competition, there are winners and losers. The people who rely on the companies that represent the winners may be protected, the people who rely on those companies that end up the losers will more than likely lose along with the company.
3. *If the Reserve Banks develop a 24x7x365 RTGS settlement service,*
 - a. *Will there be sufficient demand for the faster payments in the United States in the next 10 years to support the development of the 24x7x365 TRGS system? What will be the source of demand? What types of transactions are most likely to generate demand for faster payments?*
Demand for faster payments will accelerate over the next 10 years. Consumers or individuals demand the faster payments already and in fact they expect fast payment to be available to them already. Business will soon follow with demand as they see efficiencies that are created by real time payments. Remember that businesses are run by individuals who already demand the product.
 - b. *What adjustments would the financial services industry and its customers be required to make to operate in a 24x7x365 settlement environment? Are these adjustments incremental or substantial? What would be the time frame required to make these adjustments? Are the costs of adjustment and potential disruption outweighed by the benefits of creating a 24x7x365 RTGS settlement service? Why or why not?*
The financial services industry will need to adopt new technology that allows for almost instantaneous payment transactions. Consumers will more than likely rely on their financial institution for the products that they will need to initiate payments and that technology will

generally be free for the consumer. The financial institutions investment will be substantial, but that investment will be made incrementally over time. A five-year window could be expected for institutions and their service providers to create, test and deploy a product against a Federal Reserve Systems faster payment backdrop. Without single source control on the payment system, costs will be escalated due to vendors and financial institutions needing to seek out multiply supplier sources, created code consistent with that of numerous vendors then package that into a product that will be delivered to the end user. Like the fractured system we have today, many products will not work with others and the consumer will be the one paying the price for the inefficiencies in the end. There will be much more disruption if there is not a single source provider of trust within the system.

- c. *What is the ideal timeline for implementing a 24x7x365 RTGS settlement service? Would any potential timeline be too late from an industry adoption perspective? Would Federal Reserve action in faster payment settlement hasten or inhibit financial services industry adoption of faster payment services? Please explain.*

While this is a very difficult question to answer, one can look to the current pace of private sector involvement in this area as an example. Within the last five years, numerous large banks have already created a basic package for quicker payments. Other companies have entered the arena and have created a version of faster payment already. One would believe that through a dedicated initiative, the Federal Reserve could enter this market within five years if not sooner. A five-year timeline would not be too long. Some level of congressional action will be necessary to create laws that govern the protection of consumers and provide for trust in the system. This too could be completed in five years. The Federal Reserve's involvement in a faster payment system would provide certainty to many smaller financial intuitions and their partners thus hastening the pace of involvement by those institutions. Certainty has been the driving force behind many of the advancements in the financial world over the past seventy-five years. Knowing the Federal Reserve is behind the activity provides that certainty to all and that will drive the pace of involvement.

- d. *What adjustments (for example, account, operations, and agreements) would banks and bank customers be required to make under a seven-day accounting regime where the Reserve Banks record and report end-of-day balances for each calendar day during which payment activities occurs, including weekends and holidays? What time frame would be required to these changes? Would banks want an option to defer receipt of such information for nonbusiness das to the next business Day? If necessary changes by banks represent a significant constraint to timely adoption of seven-day accounting for a 24x7x365 RTGS settlement service, are there alternative accounting or operational solutions that banks could implement?*

Bank adjustments would seem to be much more extensive than that of customers. Bank accounting would require core processors to continuously update individual accounts with transactions posted throughout the day. Core processors update once a day now and only after all cash letters, wires, ACH presentations and over the counter presentations have been processes. Real time payments will alter this routine by requiring multiple updates during the day, if not continuous updating. Core providers will need to adapt to the changing environment. Customers on the other hand are already able to access account information 24x7x365 via many different methods. If the applications used to access customer information can ready real time information from the core, customers should see significant benefit. Daily recording of balances be it bank balances at the Federal Reserve or correspondent bank or customer balances at the financial institution should be easily handled by technology. A computer does not distinguish between one transaction or a hundred transactions, it is all relative to the timing of an update of the data and how often the update happens. Multiple or continuous updating should be a benefit to all parties. Financial institutions and the Federal Reserve would need to determine one point in time during a business day and if they wanted to produce or wait to update over a holiday or weekend to produce traditional balance sheets and income statements. These items should be separated from the thought of real time payments. They serve completely different end goals but have been consolidated in the past and at times appear to be one in the same thing. A five-year time frame to solve the technology questions would appear appropriate if the industry worked together to create the base for the technology. Banks should be able to determine if they want daily or work day information updating for one-time balance data information.

An alternative accounting method to multiple account balance updates during the day could be clearing through a loan facility at the Federal Reserve or correspondent bank. Most banks use Fed Funds Sold or Purchased to manage their daily balancing, automating the Fed Funds sold or purchased process to handle the intraday clearings would be a reasonable method to do so.

- e. What incremental operational burden would banks face if a 24x7x365 RTGS settlement service were designed using accounts separate from banks master accounts (for example, ability to earn interest and satisfy reserve balance requirements) affect demand for faster payment settlement?*

Operational burden of a new account type should be minimal as banks already manage numerous accounts during the business day. Software would need to be developed to process ongoing postings in order to balance out the account on a 24x7x365 basis. Core providers would have more burden than the bank itself as they are currently responsible for the burden of posting transactions. A separate account to handle the transactions of a 24x7x365 account could be a net zero balance account thus not requiring reserve balances that would be held in a separate account or sweeps to and from a line of credit offered by the Federal Reserve similar to today's correspondent account transfers between accounts and fed funds bought or sold lines.

- f. Regarding auxiliary services or other service options,*
- i. Is a proxy database or directory that allows faster payment services to route end-user payments using the recipient's alias, such as e-mail address or phone number, rather than their bank routing and account information, needed for a 24x7x365 RTGS settlement service? How would such a database be provided to best facilitate a nationwide adoption? How should such a tool be provided? Show should provide them?*
 - ii. Are fraud prevention services that provide tools to detect fraudulent transfers needed for a 24x7x365 RTGS settlement service? How should the tools be provided? Who should provide them?*
 - iii. How important are these auxiliary services for adoption of faster payment services by the financial services industry? How important are other service options such as transaction limits for risk management and offsetting mechanisms to conserve liquidity? Are there other auxiliary services or service options that are needed for the settle service to be adopted?*

Currently, bank routing numbers and end user account numbers are what drives virtually all payment transactions. They are well managed by the Federal Reserve and other correspondent banks and move money efficiently. Adding another layer of account type information would not improve the efficiency of the system. The current data base is managed by the Federal Reserve (routing numbers) and the individual bank receiver/payor (account numbers). These items can be managed by the same issuer as is today.

Fraud prevention services are a must in the 24x7x365 payment world. The services are already available in the credit and debit card arena and could be added to the payment system. The tools should be provided by the Federal Reserve with the cost passed on to the financial institution user. This is currently happening in the card service environment. The Federal Reserve could outsource the technology to vendors in order to offer the service internally.

Additional auxiliary services embedded in the faster payment system should be the responsibility of the end user financial services company and not the Federal Reserve. Additional services beyond security should be a bolt on at the end user level. Transaction limits fall under the umbrella of security and should be used to manage risk between the Federal Reserve and end users.

- g. How critical is interoperability between RTGS services for faster payments to achieve ubiquity?*

Interoperability would be critical to achieve the most efficient and fastest method of payment. If multiple systems which are not interoperable are thrust into the payment system, surely there will be a delay factor inserted to translate different system languages and programming.

- h. Could a 24x7x365 RTGS settlement service be used for purposes other than interbank settlement of retail faster payments? If so, for what other purposes could the service be used? Should it be restricted and, if so, how?*

An Integrated system could be utilized for information sharing and notification services between financial institutions. Fraud information sharing could transmit in the system as well. Any financial settlement could occur along the network. Financial settlement transactions like real estate sales and other financial sales that generally use a closing or settlement agent could work well within the system.

The system should not be slowed or lose integrity because of non-payment items running along the same rail. The RTGS settlement service should be first and foremost used for the accurate, trusted and efficient settlement of payments between parties.

- i. Are there specific areas, such as liquidity management, interoperability, accounting processes, or payment routing, for which stakeholders believe the Board should establish joint Federal Reserve and industry teams to identify approaches for implementation of 24x7x365 RTGS settlement services?*

All four items specified in the question (liquidity management, interoperability, account process and payment routing) are all important items in a faster payment methodology. In fact, all four items are generally equally important in real time payment system that is built on trust and efficiency. The Federal Reserve should build working groups on each item to explore options and determine how each of the items interacts with the other items.

4. *Should the Federal Reserve develop a liquidity management tool that would enable transfers between Federal Reserve accounts on a 24x7x365 basis to support services for real-time interbank settlement of faster payments, weather those services are provided by the private sector or the Reserve Banks? Why or why not?*

The current payment system has strong rules in place, some regulated by law and others by agency policy, and in general most participants inside the system play by the same set of rules. In addition, most players within the system are regulated and examined by independent governmental or quasi-governmental entities to ensure rules are followed. In a system where unregulated private entities provide service, measuring a level of participation in liquidity components would be difficult. Unless the Reserve Bank or other similar agency has the ability to examine or review a private participant, the Reserve Bank should not be providing any form of liquidity to the entity. Until risk management plans plus strong consumer protection laws are in place, it would be unwise for the Reserve Banks to be involved with not regulated entities.

5. *If the Reserve Banks develop a liquidity management tool,*

- a. What type of tool would be preferable and why?*

- i. A tool that requires a bank to originate a transfer from one account to another*
- ii. A tool that allows an agent to originate a transfer on behalf of one or more banks*
- iii. A toll that allows an automatic transfer of balance (or "sweep") based on pre-established thresholds and limits*
- iv. A combination of the above*
- v. An alternative approach*

A combination of all four alternative methods of liquidity management should be used. In general, Federal Reserve Bank account rules and pre-established guidance from financial institutions has been the backbone of liquidity over the better part of the past century. Participants would know the rules guiding liquidity management in advance and would not need to guess or estimate what the rules might be in a scenario where multiple plans and players are involved. Any alternative approach to liquidity management should provide the same clarity and transparency so the public can understand and trust the system.

- b. Would a liquidity management tool need to be available 24x7x365, or alternatively, during certain defined hours on weekends and holidays? During what hours should liquidity management tools be available*

Liquidity management tools should be available 24x7x365 along with the payment system itself. Preset transaction limits would need to be set at each level of the transaction including end user levels. Automatic transactions, initiated along a predetermined set of rules would allow for liquidity to be available at any time.

- c. Could a liquidity management tool be used for purposes other than to support real-time settlement of retail faster payments? If so, for what other purpose could the toll be used? Should its use be restricted and, if so, how?

Liquidity Management tools specifically designed to manage 24x7x36 payments should be restricted to the payment system itself. Numerous liquidity tools exist for many different functions today and could and should be used for those functions in the future. The payment system should be designed so that all users including end user consumers know that the system is safe. Adding additional processes that may require liquidity into the payment system would only reduce the transparency of the system and would combine processes with different risk characteristics in with those of the payment systems. Generally, a one size fits all solution is inefficient at best and could provide additional risk into the system.

6. *Should a 24x7x365 TRGS settlement service and liquidity management tool be developed in tandem or should the Federal Reserve pursue only one, or neither, of these initiatives and why?*
The Federal Reserve Banks should develop both the service and liquidity tool at the same time. Settlement and liquidity operate hand in hand and have done so for quite some time. Attempting to guess at a level of liquidity necessary to have on hand and immediately available is an impossible task and thus would require significant over reserving in accounts to manage a scenario that could happen just a few times a year. This would have a negative effect on liquidity in general when you manage to a maximum clearing amount that happens very seldom. The liquidity tool will take out the need to manage liquidity for its peaks and allow for a more balanced and efficient use of liquidity throughout the system.
7. *If the Federal Reserve pursues one or both actions, do they help achieve ubiquitous, nationwide access to safe and efficient faster payments in the long run? If so, which of the potential actions, or both, and in what ways?*
Both actions should be pursued simultaneously in order insure access nationwide. Allowing private sector to manage and own a 24x7x365 payment system would be like allowing a company to own all the highway and road systems nationwide and expecting every traveler to be treated the same over the long term. By allowing a private company to set the rules and regulations of a new payment system, the Federal Reserve and the country as a whole would run the risk that the rules of a faster payment system set by a private company would eventually migrate toward the benefit private company and may not be for the benefit of all other participants including consumers. Providing clear rules in a payment system along with a standardized process of providing liquidity centered around the idea that the good of the many versus the profit of a few would better set the ground work for a safe, reliable, transparent, understandable payment system for all.
8. *What other approaches, not explicitly consider in this notice, might help achieve the broader goals of ubiquitous, nationwide access faster payments in the Unites States?*
While regulations and regulators come under scrutiny by many for being overbearing and over regulating, they are generally placed in settings that are defined by smaller groups of players. The payment system however touches every person, business and governmental agency in the country and requires a very different set of rules than those tailored to a smaller audience. Equitable transfer of money needs to be dependable, transparent and ubiquitous for all and the only way to manage that into a system is to take profit making out. Offering other approaches that do not include the Federal Reserve Bank system will only eventually allow for something other than the good of all to be taken into consideration.
9. *Beyond the provisions of payments and settlement services, are there other actions, under existing authority, the Federal Reserve should consider that might help its broader goals with respect to the U.S. payment system.*
No other items necessary at this time

Thank you again for allowing me to provide feedback on the Federal Reserve Banks role in the payment system of the future. I look forward to hearing from you on the matter.

Sincerely,

Chris Donnelly
President/CEO
Bank of the Prairie
Olathe, Kansas