Corporate One
FEDERAL CREDIT UNION

December 5, 2018

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

RE: Comments on potential actions to facilitate real-time interbank settlement of faster payments and liquidity management tool

Dear Ms. Misback,

On behalf of Corporate One Federal Credit Union, I would like to take this opportunity to comment on the Request for Comment from the Federal Reserve Board of Governors related to the interbank settlement and liquidity management tool for faster payments. Corporate One is one of the largest wholesale financial institutions serving credit unions in the United States, representing the interest of 736 credit unions and their approximate 20.3 million members.

We commend the Federal Reserve for issuing a request for comment on the Federal Reserve's potential actions to accelerate interbank settlement of faster payments, including the idea of the bank developing 24x7x365 real-time settlement and a liquidity management tool to support this service. We firmly support the Federal Reserve's involvement in creating a payment solution that is interoperable and achieves ubiquity. We view the Federal Reserve's role in providing payment and settlement services, such as faster payments, as a way to create equitable access and competitive fairness for all financial institutions.

I have attached Corporate One's responses to the questions presented in the request for comment.

Respectfully submitted,

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Questions

1. **Is RTGS the appropriate strategic foundation for interbank settlement of faster payments? Why or why not?**

Yes, Corporate One agrees that RTGS is the appropriate strategic foundation for interbank settlement of faster payments.

Discussion regarding expansion of the National Settlement System (NSS) dates to 2013 when the Federal Reserve requested feedback on the "2013 Consultation Paper". After receiving feedback, the subsequent "Strategies for Improving the US Payments System" document (SIPS 2015) outlined a 3-phase strategy to expand the operating hours of the NSS with an end goal of a 24/7 system. Implementation of an RTGS platform should be viewed as the first step in moving toward improved settlement speed of all payment systems. As stated in the background document, RTGS arrangements inherently avoid interbank settlement risk.

2. **Should the Reserve Banks develop a 24x7x365 RTGS settlement service? Why or why not?**

Yes, the Reserve Banks should develop a 24x7x365 RTGS settlement service.

The Federal Reserve's role in providing payment and settlement services creates equitable access and competitive fairness. Establishing a centralized RTGS at the Federal Reserve would instill confidence in faster payments participants. This message was clearly conveyed by the original Faster Payments Task Force and reinforced in the release of the Final Recommendations. The Federal Reserve is best positioned to couple RTGS with cash management and liquidity tools. Additionally, the Federal Reserve could provide educational tools and materials for financial institutions, FinTech, data processors and consumers demonstrating the benefits and security of a centralized system.

It is difficult for us to envision a scenario where the private sector could develop and host the required RTGS infrastructure. The private sector does not have existing relationships with many credit unions and may have difficulty establishing the relationships required to reach the goal of ubiquity.

The relationship between Faster Payments (RTGS) and the liquidity/credit impact for Financial Institutions is such that cash management under a central authority and policy is critical. The Federal Reserve Bank is able to address liquidity concerns through intraday lending and collateral solutions.

3. **If the Reserve Banks develop a 24x7x365 RTGS settlement service, a. Will there be sufficient demand for faster payments in the United States in the next ten years to support the development of a 24x7x365 RTGS settlement service? What will be the sources of demand? What types of transactions are most likely to generate demand for faster payments?**

Corporate One believes there will only be a strong demand for faster payments if the Federal Reserve develops a 24x7x365 settlement service. Only the Federal Reserve Bank can provide the expectation of ubiquity and acceptance. Absent a clear statement of the Federal Reserve's participation in Faster Payments, we have observed a 'wait and see' stance by our credit union members.

Observation of faster payments in other countries reflects a relatively low volume of payments being migrated to the new payments rail. However, the existing mobile payment platforms in the U.S. are rapidly gaining acceptance. In our experience, credit unions are interested in developing a comprehensive money movement platform that would provide consumers with payment options that match the timing and immediacy of the payment type. While a great deal of attention has been paid to the P2P use case, we believe that "Request for Payment" will generate significant transaction volumes as consumers realize the benefits related to bill pay transactions.

Credit Unions that do not recognize the growing demand for faster payments are likely to experience disintermediation.

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 greatest impact is the cost to the financial industry to maintain higher levels of liquidity versus deploying funds in other ways. Without cash flow historical models to plan for coverage resources, substantial adjustments to staffing may be required depending on liquidity management solutions.

The proposed environment would require significant changes for financial institutions to migrate from primarily a batch processing environment to a "mixed" environment that can accept both real time and batched transactions. Software, processing and operational changes would require a complete revision that change the fundamental "business day" model currently in place. Additionally, depending upon the level of automated tools offered to support funding and cash management, significant staffing resources may be required to monitor accounts and manage liquidity. However, the cost of not offering a 24/7 operation within the credit union industry may represent a larger long-term cost in terms of relevancy given the FinTech and other providers push to advance real-time payment solutions.

The timeframe required for the adjustments is of significant concern and would depend on many factors. The availability of core processors and software vendors to design, distribute and implement the required changes/upgrades will dramatically impact the industry's ability to achieve the goal of ubiquity. Front end solutions would be required to integrate with credit union mobile and home banking solutions. These solutions are typically sold and implemented separate from the core system changes, requiring additional vendor relationships. A significant concern arises from the focus of these software vendors on large financial institution implementations, leaving smaller credit unions with fewer vendor options in the near term.

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.

The key to faster adoption is Federal Reserve leadership. Corporate One believes that participation of the Federal Reserve in providing a solution would help gain acceptance of faster payments and would create a ubiquitous platform for the industry. However, this does not alleviate the issue of vendor availability to develop and implement front-end and core integration solutions.

Ideally the system would need to be in place within 2 years. Depending upon the amount of time required for the Federal Reserve to develop a RTGS solution, it is possible that credit unions and their industry partners would have adequate time to develop systems and processes to support the new payment rail.

In discussing faster payments with our members, many credit unions are unwilling to make a commitment to service or software purchases, resources and development, until a decision is made by the Federal Reserve. A Central Bank mandate would also benefit those that require core interface development if their contract includes a provision to comply with Regulatory changes or changes in the Federal Reserve systems.

As reflected in the history of Check 21 and Same-Day ACH implementations, credit unions are in a unique position in that they depend upon their respective Corporate Credit Unions to facilitate deployment of solutions to industry changes and mandates. Ultimately, Corporate Credit Unions and our credit union members will "do what it takes" to be "in the game" once a timeline is formed.

Following review of the RFC responses, if industry responses support Federal Reserve hosting of a RTGS system, we anticipate the Federal Reserve would issue a second RFC providing the specifics of a proposed product offering. Given the amount of time it may take for the Federal Reserve to design and implement a solution(s), this initiative needs to begin immediately.

d. What adjustments (for example, accounting, operations, and agreements) would banks and bank customers be required to make under a seven-day accounting regime where Reserve Banks record and report end-of-day balances for each calendar day during which payment activity occurs, including weekends and holidays? What time frame would be required to these changes? Would banks want the option to defer receipt of such information for nonbusiness days 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?

Substantial changes would need to take place in moving to a 24x7x365 operation, including significant changes to areas such as customer support and IT support. Statement revisions and changes to core processing systems would be necessary. Smaller Financial Institutions may need to extend existing relationships to accommodate a 24x7x365 process and change the defined end of day. Since RTGS increases the number of transactions posting to accounts, an operational review will be required to ensure core systems can process large volumes of activity. Additionally, there will be a need to establish a queuing service to allow transactions to queue during the end of day cycle or during down time events to ensure transactions are properly processed.

If payments for RTGS require that liquid funds are available for institutions the consequential impact could be severe, lessening funds availability for investments and loans. The impact to earnings could also be severe in that there could potentially be lost earnings and higher borrowing. A solution for overnight/weekend funding – or borrowing from the discount window or FHLB – real-time 24/7 is desirable.

Changes in agreements with our members would be required to augment current account disclosures to ensure alignment with new products that allow 24x7x365 clearing and funds availability requirements.

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

Corporate One recommends the setup of a sub account of the Master account and overall funding to be managed as one account. If a second account is required, the Federal Reserve should develop an automated tool that would move funds from the master account to the separate account or back to the master when certain balances or thresholds are met. The Federal Reserve should look at the two accounts together for reserve balance requirements, interest calculation and to prevent over-draft issues. Otherwise the complexity and cost of the operations will increase.

Liquidity management changes would be required to manage new risks related to RTGS, including new controls. Additional staffing would be required to perform the balancing of a separate settlement account, or sub account, and additional funding transactions to ensure uninterrupted settlement.

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 should such a database be provided to best facilitate nationwide adoption? Who should provide this service?

Corporate One recognizes the need for a centralized or federated directory that can facilitate the interoperability of faster payments systems. This would be a valuable auxiliary service.

An agency, similar to how the credit reporting agencies manage their database, would be needed to facilitate a nationwide account to account RTGS payment system, i.e., a strong identification database. We assert that the Federal Reserve is the best agency to host and provide this service. The Federal Reserve has the broadest reach to the financial services industry and is a trusted source.

The solution should use aliases such as phone numbers or email addresses versus routing transit and account numbers to remain competitive with FinTech solutions.

The directory service would need to have a high level of security to provide industry confidence and avoid the potential risk of exposure of sensitive information, fraud, reassignment of numbers, owners, orphan accounts, possession, or difficulty with recovery or identifying incorrect payments.

ii. Are fraud prevention services that provide tools to detect fraudulent transfers needed for a 24x7x365 RTGS settlement service? How should such tools be provided? Who should provide them?

A centralized fraud detection system would be desirable. However, the existing fraud databases represent valuable intellectual property of the various providers in delivering a priced service for financial institutions. We have seen an increase in fraud prevention service enrollment for other payment services and expect that this trend will continue. As such, it is unlikely that a single, consolidated fraud database would be made available in the near future. Existing providers that have developed payment system fraud products would likely be the best resource to providing fraud services for RTGS.

Each institution or faster payments solution should provide fraud detection as a service to its customers/members.

iii. How important are these auxiliary services for adoption of faster payment settlement 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 settlement service to be adopted?

Auxiliary services are critical to the success of a ubiquitous faster payments system. Specifically, a universal or federated directory service is an integral component in routing faster payments and settlement in a multi-vendor environment to promote interoperability.

The availability of auxiliary services from a trusted provider can help create the ubiquity that ensures all credit unions can participate in faster payments, not only the large FIs that have the resources to obtain those services independently.

Recognizing that fraud will occur with faster payments and will impose a great burden, the responsibility for fraud mitigation lies with the credit union that has the account relationship. This is no different than other payment types. We recommend that transaction limits should be defined to mitigate fraud since most P2P and P2B payments are lower dollar values. Additional controls can be deployed for B2B as the system evolves.

g. How critical is interoperability between RTGS services for faster payments to achieving ubiquity?

Interoperability is important to achieve ubiquity, encourage innovation and alternative solutions. While it may be difficult to achieve Interoperability between every vendor provided solution, mandating receipt capabilities from the Federal Reserve would create a solution that allows access to all receiving endpoints through the FRB. As evidenced in the current environment, the absence of interoperability has created closed loop systems where payments outside of the vendor solution are routed through the ACH system and can no longer be classified as real-time payments.

RTGS needs to be an open solution, available for everyone to benefit from the faster settlement of payments. Interoperability managed by the Federal Reserve would help mitigate risk and enhance settlement between financial institutions.

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 its use be restricted and, if so, how?

Corporate One supports using RTGS exclusively for faster payments for the initial deployment. This restriction would help gain experience with managing cash flows and liquidity that would be critical in developing a stable system. We recognize the potential extension of RTGS to include other payment applications and support of the use of RTGS beyond faster payments in the future.

We understand that the system would be initially designed to support domestic transactions only, however, the potential exists for international transactions.

RTGS could provide FINCEN with information and visibility regarding anti-money laundering and illicit use of funds. Data gathered from the system could also be used to provide economic insights.

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 a 24x7x365 RTGS settlement service?

Corporate One supports the leadership provided to date in creating the faster payments task force and recognizes the value of the synergies arising from a diverse group of stakeholders. With the formation of the Faster Payments Council, we recommend the Federal Reserve continue to use this group as its primary conduit to the industry and influence stakeholders to share their ideas and concerns with the industry through this group.

Having participated in the Faster Payments Task Force and Governance Framework Formation Team, we are concerned that an additional industry team focused on RTGS has the potential to slow down progress. The Federal Reserve should make a clear statement of direction regarding active participation in Faster Payments, support for the Faster Payments Council and the development of a RTGS system.

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, whether those services are provided by the private sector or the Reserve Banks? Why or why not?**

Yes. The Federal Reserve should develop a liquidity management tool. If settlement occurs during non-banking hours, there will be a need for a liquidity management tool to prevent overdrafts.

The liquidity management tool should track the RTGS settlement by category or transaction types. This tool would be used to view the flow of settlements across a defined period of time with minute by minute tracking for banks and credit unions to manage their liquidity. This tool would be useful for management reporting of volumes of activity.

As previously stated, Corporate One supports the setup of a sub account of the Master account with overall funding to be managed as one account. If a separate account is mandated, the Federal Reserve should develop an automated tool that would move funds from the master account to the separate account or back to the master when certain balances or thresholds are hit. In addition, there should be a credit line available off the Master account that would cover the separate account to avoid overdrafts of both accounts.

5. **If the Reserve Banks develop a liquidity management tool, a. What type of tool would be preferable and why?**

We are supportive of a combination of solutions.

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

Allow an Agent. Credit unions depend on Corporate Credit Unions to handle settlement and liquidity management. A tool enabling "transfer on behalf" would enable more credit unions to participate in a faster payments solution as they depend on their Corporate Credit Union to manage liquidity on their behalf.

iii. A tool that allows an automatic transfer of balances (or "sweep") based on pre-established thresholds and limits

A tool that allows an automatic transfer of balances between a Master account and a sub account with established thresholds and limits is important to help in the management of liquidity and fraud risk.

iv. A combination of the above

A combination of the above with significant importance placed on the need for an automatic transfer of balances based on pre-established thresholds and limits.

We believe all three tools above would be necessary including the ability to monitor balances or respondent accounts for correspondents acting as settlement agent at FRB.

Tool should be mobile enabled.

v. An alternative approach

Possibly the use of an FI ledger system managed by the Federal Reserve or an entity offering liquidity services specifically for chartered FIs. Or, a cooperative network could be used.

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 a liquidity management tool be available?

Corporate One recommends that if the RTGS system is to be available 24x7x365, the liquidity tool needs to be available and operational.

This is dependent on the type of settlement account that will be available. If as noted above, the account earns interest and satisfies reserve requirements, financial institutions may be more willing to maintain higher balances and project usage and/or if the account transferred automatically from the master account without penalty, the need to transfer funds on weekend and holidays would be eliminated. If the separate account is not set up that way a tool would be needed to allow for monitoring and transfers on weekends and holidays.

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 purposes could the tool be used? Should its use be restricted and, if so, how?

Corporate One would be interested in exploring opportunities to use the tool to assist with corporate to corporate settlement?

6. Should a 24x7x365 RTGS settlement service and liquidity management tool be developed in tandem or should the Federal Reserve pursue only one, or neither, of these initiatives? Why?

We strongly recommend the Federal Reserve should develop both the settlement service and liquidity management tool in tandem since knowing detailed balance and positions is key to maintaining smooth flow of funds for consumers in the model described. Settlement service offers real time payment between banks and credit unions, and Liquidity Management tool sets controls over those real time payments.

Without a liquidity management tool, some credit unions would be disenfranchised because of the demands of managing payment processing 24x7. This would also reduce the costs associated with maintaining excess liquidity and assist in the prevention of insufficient funds scenarios in off-hours, which could reduce trust and usage of RTGS.

7. If the Federal Reserve pursues one or both of these 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?

Yes. Development of RTGS encourages ubiquity and creates an entry path for all institutions.

The Federal Reserve is a trusted partner on payments, and the adoption rate would be greater than through private sector efforts that are operated/owned by a small number of financial institutions. Currently P2P offers real time funds to the beneficiary, but the financial institution is required to wait for funds until the next business day. This plan would offer greater value and less credit risk to receiving banks.

The faster payment solutions that are currently available are taking transactions from the banking realm. The Reserve Bank is a preferred provider that can implement a solution available to every financial institution regardless of size. The Reserve Bank also has the authority to create and oversee solutions (type of account, type of settlement, rules, etc.) that will ensure the safety and efficiency of payments in the long run.

Both actions are the best solution to achieve ubiquitous nationwide access.

8. What other approaches, not explicitly considered in this notice, might help achieve the broader goals of ubiquitous, nationwide access to faster payments in the United States?

The Federal Reserve should continue to be a source for industry collaboration and encouragement of interoperability. FRB marketing and education on faster payments and RTGS will help drive participation. The Request for Comment is silent on security, operational practices to include disputes, regulations and statutes that need development. The FRB should be proactive in determining what regulatory changes are needed to optimize real time payments.

Exemptions for Bank Secrecy Act (BSA) and OFAC regulations by the U.S. Treasury may be needed to gain greater adoption for faster payments. Without regulatory relief C2B and P2P payments would take longer than one minute due to interdiction screening and due diligence needed for OFAC, and the costs of BSA/AML monitoring would significantly increase. OFAC exemptions should be similar to the requirements for ACH transactions.

9. Beyond the provision of payment and settlement services, are there other actions, under its existing authority, the Federal Reserve should consider that might help its broader goals with respect to the U.S. payment system?

Corporate One encourages the adoption of RTP platforms to grow and build credit unions share of wallet as consumers continue to adopt faster non FI solutions for RTP. We agree that a standard platform and settlement rules will speed adoption by FI's by minimizing settlement risk in a defined regulatory framework. The speed of technology innovation will grow if a larger central exchange is created allowing more P2B and P2P adoption. Potential fraud and compliance could slow adoption if it burdens further the FI's while exempting FinTech's.