

December 7, 2018

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Secretary  
Board of Governors of the Federal Reserve System  
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Washington, D.C. 20551

**RE: Docket No. Op-1625; Potential Federal Reserve Actions to Support Interbank Settlement  
Faster Payments**

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

Yes. There has been a real time payments system in place for four decades but we still lack real time settlement. There is a critical need for standards that will drive universal, mandatory interoperability in the system. A safe and efficient payment and settlement system that works in the interest of the public is vital to the U.S. economy and we believe the Federal Reserve plays an integral role in helping to deliver real time settlement just as it has so effectively done with updates such as Check 21 and ACH same day and wire services. We also caution against private sector concentration that could cause disruption during periods of economic stress and could result in an adverse impact on end users. We applaud the leadership role the Federal Reserve is taking to engage the industry in creating a roadmap and incentives to enable real-time payments in the U.S. that can benefit end users, can efficiently trace activity, and help increase the fluidity of the overall economy.

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

Yes. As part of its central mission, the Federal Reserve has a fundamental responsibility to ensure that there is a flexible and robust infrastructure supporting the U.S. payments system on which the private sector can develop innovative payment services that serve the broadest public interest. We also believe the RTGS would reduce settlement risk and potentially simplify the clearing function. While the solutions can be incremental, they need to be cost effective, and there should be choices in a diversified marketplace. The Federal Reserve has appropriately engaged the many industry stakeholders beginning in 2013 when it published its consultation paper that requested public feedback on faster payments. Based on that feedback, the Fed convened a Faster Payments Task Force (FPTF) of engaged stakeholders that developed a set of effective criteria for faster payments. Then in 2017, the Fed published a set of consensus recommendations of the FPTF for achieving the vision of ubiquitous, safe, and efficient faster payments for the U.S. Most recently, the Fed has held a series of meetings around the country and at the Cedar Rapids, Iowa location; the message from participants was very loud and very clear that they want the Federal Reserve to develop and operate a 24x7x365 settlement service to support faster payments.

**3. If the Reserve Banks develop a 24x7x365 RTGS settlement service, 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?**

Yes - we believe there will be sufficient demand within the next ten years. According to a recent survey done by the American Bankers Association, 7 in 10 Americans have used a mobile device at least once in the past month to manage their bank account and 44 percent of Americans between the age of 18 and 34 make mobile payments. Immediate payment and related confirmation is the expectation of many Americans today and will only increase over the next ten years if the U.S. can deliver to end users – a competitive and accessible system of enhanced speed, convenience, accessibility and security. Even the Fed’s own research shows that the overwhelming majority of consumers and businesses are looking for real-time or close to real-time payments, indicating a need that is not currently being met by any of the payment ecosystem participants. The Federal Reserve’s role as a Central Bank is equally essential in helping facilitate the payment industry to deliver on the expectation of faster payments and faster settlement. All forms of payment should be accommodated – P2P, B2B, and retail payments. Additionally, as the cost of funds increase, additional use cases will evolve such as same-day payrolls, expedited bill payments, account to account transfers, etc.

**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?**

We believe the adjustments will be reasonable and incremental as long as the Federal Reserve provides appropriate options (i.e. liquidity management tools (services) for banks with different levels of need that will enable management of faster payments. Likewise, we believe the timeframe can be relatively short if these options are available. Consumers will expect faster payments and settlement but reluctant to pay – so it is essential that the system be cost effective for financial institutions. For end-users who choose real time payments – it should make it easier to manage their account balances under RTGS – for all others, traditional channels will remain and option.

**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 faster payments conversation began in earnest more than five years ago and much industry input has been gathered, debated and published. The United States is lagging other countries in faster payment and the longer the Federal Reserve delays actual implementation, the greater the risk of solutions being developed and adopted that are outside of the regulated financial system, are fragmented, closed loop, and not in the best interest of the public which expects and deserves a safe, secure payment system. We believe Federal Reserve action would ensure both the financial services industry and public adoption of faster payments.

**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?**

The typical community bank is largely dependent on its core service provider to memo post transactions throughout the day and many functions can be scheduled as automatic and unattended after normal banking hours. The Federal Reserve will play an important regulatory role in working with banks' core providers to facilitate these unattended transactions so they can be completed in a cost effective manner. The existing real time settlement debit card network can serve as a model versus a net deferred settlement process where the card issuer prefunds creating a costly, complex reconciliation mess. Success depends on the ancillary services the Federal Reserve provides such as liquidity tools (collateralized lending and account sweeps) to fund gaps after normal hours. We also believe standards based messaging is the key to reaching ubiquity and interoperable and is essential if real time payments are to be adopted by consumers and businesses including the ability to request information, acknowledgements, and other message sets that add value to the interaction between counterparties to a payment.

**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?**

Banks are in the business of account (funds) management. Most financial institutions have more than one correspondent bank account that requires ongoing near real time oversight. Managing two accounts should not be a challenge, and less so if liquidity tools are available. Earning interest for both the master account and RTGS account on excess reserves would significantly reduce the tendency to squeeze or minimize the RTGS account balance and thereby reduce inter-account transactions.

**f. Regarding auxiliary services or other service options, i.e. 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?**

Yes a proxy database or directory using the recipient's alias is essential. The form of that alias will evolve as tokenization utilizing biometrics or other unique characteristics are perfected and will also allow stakeholders to evolve and innovate as well. Participating financial institutions will have to decide how aggressive they want to be in populating the

proxy directory and that will be driven by their confidence level in security, privacy and the end user's expectation of privacy versus their demand for convenience. These are essentially the same privacy challenges that exist today with current closed loop options. In order to achieve the level of confidence that financial institutions and end users will want and should demand – it is critically important to embrace standards to facilitate the clearing of transactions that are similar to the Domain Name Service (DNS) model used to resolve URL names. The directory should be resilient, scalable, and distributed and should provide a broad public benefit with accredited standard organizations managing the standard. To help minimize the differences of transacting in real time around the globe; harmonized and consistent information should be present from payment initiation through reporting regardless of region, currency, platform or channel. Adoption of global standards helps banks to reduce integration costs, interact more efficiently with other financial institutions and more effectively leverage data to run their businesses.

**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?**

Yes a fraud prevention service is critical and an important component to real time payments. A shared data base of known fraudulent accounts and automated fraud detection tools are needed. The Fed should provide these services and work in tandem with private sector providers. These tools will also enable end users to utilize best practices in protecting themselves and make a real time payment system affordable for all.

**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?**

In order to create the best possible system – each of these auxiliary tools is important. The proxy data base or directory is very important to facilitate adoption and most importantly equal access and interoperability of faster payments for regulated financial institutions of all sizes. Risk management tools are also important and should be tailored for institutions with different levels of complexity and size. Other auxiliary services may become evident as the system evolves but the Federal Reserve is in the best position to monitor trends and determine what is most needed to continually improve security. Adoption always depends on cost, ease of use, trust, and positive results.

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

Highly critical as in 11 on a scale of 10.

**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?**

Yes – it should be used for P2P, B2B as well as for retail payments. We cannot not think of any good reason for it to be limited to settlement of retail faster payments. A key component to business adoption will be the associated pass through of remittance information and the ease of integration into the normal payable and receivable systems. There has been a lot of work done by the industry to move this forward and use cases will develop once real time settlement is the norm.

**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?**

Teams in all of these areas will be helpful in the development, implementation and delivery of these services. The Federal Reserve has and is playing an important role as a convener of industry stakeholders to support its mission to foster safety and efficiency of the payment settlement system. As stated in an earlier question response; the Fed has facilitated an exhaustive process of stakeholder engagement resulting in a set of consensus recommendations that should serve as a roadmap for the Federal Reserve and other participants. Continuing stakeholder collaboration to flesh out and identify approaches for implementation of a 24x7x365 RTGS settlement service is the logical next step and should be undertaken immediately. The Federal Reserve must lead the collaboration and governance structure which may include rules, laws, and regulation to guarantee equal access that provides interoperability, choice, and flexibility for regulated financial institutions of all sizes.

**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 risk of end users experiencing individually rejected payments and broader scale payment interruptions caused by insufficient liquidity in an RTGS-based faster payment services implies a general need for banks to manage their liquidity related to settlement and the need for the Federal Reserve to develop a liquidity management tool. This tool would enable financial institutions to settle real-time payments without the need to staff their funds management operations 24/7. It also falls within the historical role of the Fed in providing mechanisms for the settlement of payment obligations between and among financial institutions using balances at the central bank for the smooth functioning of the payment system and for the broad financial stability of the country.

**5. If the Reserve Banks develop a liquidity management tool, 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 tool that allows an automatic transfer of balances (or “sweep”) based on pre-established thresholds and limits**
- iv. A combination of the above**
- v. An alternative approach**

A combination of the above. For most banks, a tool that allows an automatic transfer of balances (or sweep) possibly based on pre-established thresholds and limits would likely be preferable but for other entities that have the appropriate expertise and controls in place, other options might prove more effective and efficient.

**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?**

The goal should be 24x7x365 but the Fed could start with defined hours and the marketplace can determine if more is needed. However, if the tools are in place and functional there seems to be little practical purpose to limit the timeline.

**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?**

Liquidity tools as envisioned above would serve the current system as well as the anticipated RTGS account.

**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?**

The tools should be developed in tandem but there is no practical reason to delay implementing the liquidity tools. It is achievable in the near term and will serve today’s industry needs. It should not; however, be counted as an accomplishment that precludes the RTGS account. The goal is real time settlement.

**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 – both RTGS and the supportive liquidity tool will be beneficial to achieving long term ubiquity and nationwide access to safe and efficient faster payments. To date there are ongoing challenges in private sector solutions. The Federal Reserve’s long standing public

policy objectives for the payment system to be safe, efficient and accessible to all eligible financial institutions on an equitable basis; and through them, to the public nationwide is best achieved by pursuing both a 24x7x365 RTGS settlement service and liquidity management tool. These actions will ensure that all faster payment solution providers have the necessary integration with the Federal Reserve to provide equal access and interoperability for all financial institutions similar to ACH and Check 21 services.

**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?**

Providing banks with more latitude to serve the under and un-banked population should be encouraged and viewed as a high priority. Facilitating low volume, low value, as needed cross border payments should be a goal as communities grow and diversity expands; and should not be left entirely to non-bank high cost solutions.

**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?**

Absolutely, but let's do this first.