

December 14, 2018

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Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> St. and Constitution Avenue N.W.  
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 over 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. The Federal Reserve plays an integral role in helping to deliver real time settlement.

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

Yes. The Federal Reserve Bank has a responsibility to serve the broadest public interest. The RTGS should reduce settlement risk and potentially simplify the clearing function. The solutions can be incremental, cost effective, and provide choices in a diversified marketplace. The Federal Reserve has appropriately engaged the many industry stakeholders beginning in 2013. After years of study, the message is even stronger to provide ubiquitous, safe, efficient fast 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. Most consumers and businesses are looking for real-time or close to real-time payments, with the ability to use their existing Financial Institution. The system is fractured and inconsistent. The Fed's role as a Central Bank is essential to help facilitate 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?**

The Federal Reserve Bank will make reasonable and incremental adjustments and provide appropriate options (i.e. liquidity management tools and other services) for banks with different levels of need that will enable management of faster payments. The timeframe can be relatively short if these options are available. Consumers will expect faster payments and settlement at minimal costs. So it is essential that the system be cost effective for financial institutions. It should make it easier to manage their account balances under RTGS. Traditional channels will remain and option. No one is forced to change.

**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.**

We believe Federal Reserve action would ensure both the financial services industry and public adoption of faster payments. 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.

**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?**

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 information, messages and verification of 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?**

As a community bank, this would be minimal impact. Today we manage multiple settlement accounts. Earning interest on the either account would encourage higher balances and less likely to have service interruptions from in adequate balances.

**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 the Federal Reserve Bank should provide the path for any insured deposit institution to have access to settlement. We use a directory today of routing and account numbers. The database, with standards, can evolve to provide both settlement and privacy.

**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. Layers of protection work better than any single fraud system.

**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?**

It is the only way it will work well and work well over time.

**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 Bank 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 – This would be an auxiliary tool that assists settlement and funds risk management.

**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 is the best approach.**

**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. This could be staged in, 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. Monitoring tools, alerts or secondary instructions could be part of a system.

**b. 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?**

The liquidity tool should not be single purpose but an additional tool to manage liquidity.

**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?**

One is not dependent on the other but there is no reason not to proceed with both.

**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. So far there are ongoing challenges in private sector solutions. The Federal Reserve Bank'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?**

Yes, but let's not broaden the scope and miss getting RTGS done. Let's do this first.

Respectfully submitted,

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