November 28, 2018

**Ann Misback, Secretary**
**Board of Governors of the Federal Reserve System**
**20th Street and Constitution Avenue NW**
**Washington, DC 20551**

**Via E-Mail: regs.comments@federalreserve.gov**

**Re: Docket No. OP-1625; Docket Number 2018-24667**

Dear Ms. Misback:

The following comments are submitted on behalf of Corporate Central Credit Union, a corporate credit union providing financial services to nearly 400 natural person credit unions. As a primary provider of correspondent/respondent settlement activity with the Federal Reserve System and an electronic service provider for our member credit unions, we appreciate the opportunity to comment on the Federal Reserve's interest about providing a solution for promoting ubiquitous, safe, and efficient faster payments in the United States by facilitating real-time interbank settlement and a liquidity management tool.

Corporate Central Credit Union strongly supports the Federal Reserve Bank role to provide interbank settlement along with a liquidity management tool and to provide an operational role. In general, we believe it is critical for the Federal Reserve to provide a solution because the Federal Reserve has the unique ability to transfer balances that are deemed certain and free of risk, and it has a history of providing payment services to clear and settle payments between financial institutions on an equitable basis including check, ACH, and wire transfer payments. Corporate Central Credit Union agrees with the Federal Reserve Bank's conclusions, that if it developed a 24x7x365 RTGS settlement service that it would yield societal benefit, including the wide range of credit unions we serve; benefiting the many credit union members they serve nationwide.

To assist with feedback, Corporate Central Credit Union's comments on the questions presented in the Request for Comment follow:

**Questions**

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

Yes. Corporate Central agrees with the Federal Reserve's recognition that it may be difficult for the private sector to create an infrastructure that on its own could provide equitable access to enough credit unions to include ubiquity and that a private sector faster payments service that does not have existing relationships with a large number of credit unions may have difficulties establishing those relationship for a new service.

RTGS which processes the settlement (payment) along with the payment instruction would be similar to current funds transfer transactions. This is a process already managed in the correspondent/respondent relationships common among credit unions.

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

Yes. 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. Faster payments provide finality; the Federal Reserve Bank offers a safe/trusted solution. Intraday and overnight lending opportunities at the Federal Reserve Bank align with a tiered structure that correspondent/respondent relationships currently practice with corporate/credit unions. The Federal Reserve Bank is able to address liquidity concerns through intraday lending and collateral solutions.

Although private-sector solutions are well under way, in order to engage the many smaller financial institutions, who serve members nationwide, a tandem approach would engage many more credit unions through relationships already in place with the Federal Reserve Banks established through a corporate credit union.

We surveyed members in focus groups (both 250 million and 1 billion assets), and there are many credit unions that are waiting for an FRB solution. At present they are not hearing a demand from their members. There are other opportunities for expedited payments when required such as Same Day ACH and wire transfer transactions. The Federal Reserve Bank can accelerate the acceptance of faster payments just as it changed the adoption of image deposit through Check 21 initiatives.

A Federal Reserve Bank solution provides a high level of security due to regulatory oversight. Secure sources of intra- and inter- day liquidity are important.

**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?**

Only if the Federal Reserve Banks develop a 24x7x365 settlement service will there be demand for faster payments in the next ten years – the Federal Reserve Bank can provide the expectation of ubiquity and acceptance. Without the Federal Reserve involvement there seems to be a 'wait and see' what/which solution should be followed.

There is great opportunity for real time payments – there is demand for features – it offers the security of final settlement and meets consumer expectations of instant payment instant payments in B2B, B2C, C2B, and P2P business models. Weekend transactions, such as mortgage closings and providing a vehicle for request for payment, will create many new opportunities.

Acceptance will grow as the benefits of tracking and reconciling payment by payment electronically are realized.

**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?**

Substantial adjustment to staffing may be required depending on liquidity management solutions – without cash flow historical models it will be difficult to plan for what will be required for staffing additional settlement hours and substantial adjustments to liquidity planning are likely to ensure sufficient funds to cover unexpected cash flows.

The timeframe required for the adjustments would depend on many factors – in-house core processor versus service bureau environment, personnel and size of credit union, IT infrastructure and expertise, correspondent settlement relationship (Corporate credit union) versus non-corporate, etc. The timeframe can be better scoped once clear direction is defined.

Personnel costs will increase as staff will be needed to monitor activity during the extended periods potentially. 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/options.

The greatest impact is the cost to the financial industry, and ultimately to the economy, is to maintain higher levels of liquidity versus deploying funds in other ways.

System maintenance and end of day closing procedures will need to be redefined and adjusted.

**Why or why not?**

See response above.

**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.**

Check 21 and Same Day ACH rollout plans provide examples in determining a timeline needed for implementation. Regardless of the final timeline set, the key components are the Federal Reserve's leadership role and setting deadlines. Credit unions, service providers, and the market will "do what it takes" to be "in the game" once a timeline is formed.

FRB participation in the faster payments solution would hasten adoption in many ways. Although there is significant progress in private sector initiatives, there are many institutions uncertain of adoption, unwilling to make a commitment of resources and development, until a decision by the FRB is made.

An FRB solution also would 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.

**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?**

Operations, Accounting, and Investment Department personnel – and perhaps relationships with third parties – would need to be available to access borrowing and provide cash management on weekends, evenings, and holidays.

Changes in agreements with our members and business partners/vendors, statement revisions, and changes to our core processing would be necessary as well.

Processing capacity would need to be analyzed as to the impact of increased volumes.

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 be severe as well 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.

**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?**

We find that there would be difficulties with managing two accounts – especially if reserve requirements and interest earnings would be impacted. We believe the impact of managing two accounts would be operationally burdensome and create unnecessary costs in relation to beneficial gains.

**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?**

Building a secure solution is critical given the risk of exposure of sensitive information, fraud, reassignment of numbers, owners, orphan accounts. The Federal Reserve System offers confidence to the financial services industry. The solution needs to use consumer friendly identifiers (mobile, email, or blockchain) in order to remain competitive with FinTech solutions such as AppleCash. A proxy database or directory could provide that solution so that it is seamless to the end user.

**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?**

Fraud prevention services may be important in order to automate off hours transactions. In addition, personnel would be needed on our end to review/reject activity off hours. OFAC and BSA monitoring impact must also be considered.

This is another opportunity to advance technology – blockchain and/or artificial intelligence to resolve/detect fraud. There are many FinTech's that have solutions in beta or in production. The Federal Reserve should look to partner/acquire technology that is evolving very fast.

**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?**

The ultimate responsibility is with the financial institution that has the account relationship; however, fraud will still occur and may impose a great burden/loss. Transaction limits should be defined to mitigate fraud. Most P2P and P2C payments are smaller dollars. 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?**

Primary is a Federal Reserve standard service – if other service providers are competitive and well established, the interoperability must flow through the Federal Reserve in order to achieve ubiquity. Interoperability with a Federal Reserve system will allow all solutions to help mitigate settlement risk.

**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?**

Initially, it should be restricted to the Faster Payments operational and settlement solutions to ensure that cash flows can be managed.

**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?**

We believe that it is critical that the Federal Reserve's role in faster payments must be a clear statement of direction otherwise the adoption or active participation in faster payments will slow – waiting for their direction.

Interoperability is a critical component as stated by the Faster Payments Task Force and therefore industry input and collaboration is needed, but being careful not to stall the progress of the initiative.

**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. It could work hand in hand with a Federal Reserve Bank settlement solution.

**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**

No. We believe this should be automated or provide criteria to automate with exception handling.

**ii. A tool that allows an agent to originate a transfer on behalf of one or more banks**

Yes. Use of an Agent is critical for many credit unions to participate. 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 (those with FRB accounts?).

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

Sweep, or a combination of the sweep and the agent transfer above.

**iv. A combination of the above**

Possibly – see above comment.

**v. An alternative approach**
N/A

**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 tool could be utilized for specific hours to minimize the cost – reliance could be defined during off hours.

**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?**

Initially, it should be restricted to the Faster Payments operational and settlement solutions to ensure that cash flows can be managed.

**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?**

They should be developed in tandem. Without a liquidity management tool developed in tandem, some credit unions would be disenfranchised because of the demands of 24/7 management. 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?**

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?**

N/A

**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?**

N/A

Thank you,

Chris Felton

Chris Felton

President/CEO