CORPORATE CREDIT UNION
Alliance

December 13, 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,

I am submitting the following consolidated response on behalf of the Corporate Alliance, a group comprised of CEO's from each of the Corporate Credit Unions. We 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. The Corporate Alliance represents the interest of 5,750 credit unions serving approximately 103 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 development of a 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 path to create equitable access and competitive fairness for all financial institutions.

The Corporate Alliance response to the questions presented in the request for comment follows.

Respectfully submitted,

Jay R. Murray

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Chairman
Corporate Credit Union Alliance

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

Yes, there is general consensus among the Corporate Alliance that RTGS is the appropriate strategic foundation for interbank settlement of faster payments.

As stated in the background document, RTGS arrangements inherently avoid interbank settlement risk. Implementation of a RTGS platform should be viewed as the first step in moving toward improved settlement speed of all payments systems. As described, 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.

One group member commented that most 'non-crypto' settlement still occurs on the same work-day schedule as the FRB, with notices going out at the point of purchase, but funding settlement only Monday - Friday. Therefore, RTGS may go beyond what is required currently adding unnecessary costs and liquidity issues.

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.

It is difficult for us to envision a scenario where the private sector could develop and host the RTGS infrastructure while creating equitable access and competitive fairness in providing a settlement service. Additionally, in providing Faster Payments services the private sector does not have existing relationships with a large number of credit unions and may have difficulty establishing the relationships required to reach the goal of ubiquity. Although private-sector solutions are well under way, in order to engage the many smaller credit unions 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.

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. 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?**

There is agreement among the Corporate Alliance that "Only if the Federal Reserve Banks develop a 24x7x365 settlement service will there be demand for faster payments in the next ten years". Further, "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. That said, there is great opportunity for real time payments in that it offers the security of final settlement and meets consumer expectations of instant payment. We are convinced that acceptance will grow as the benefits of tracking and reconcilement of individual payments electronically are realized.

Existing mobile payment platforms in the U.S. are rapidly gaining acceptance. While a great deal of attention has been paid to the P2P use case, we believe that additional use cases will experience rapid growth. Consumers will propel the demand for faster payments, as well as end user businesses. We expect "Request for Payment" will experience increased transactions as consumers realize the benefits in relation to bill pay transactions. Additionally, faster payments will become a more common method to handle small dollar payments in consumer to business (P2B) transactions replacing current debit/credit card and ACH POS transactions as well as replacing certain currency transactions (e.g. splitting payment at lunch with cash).

Once established, a RTGS solution could be expanded to satisfy the need for businesses wanting immediate settlement for other payment types. If not available through the central bank RTGS system, they may seek faster settlement through sources outside of the Federal Reserve Network.

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 and ultimately to the economy 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.

For credit unions, the change at the baseline is substantial. Among those significant changes would include changes in core processing, vendor relations, and customer support. The current structure is primarily batch processing with a defined end of day. The proposed RTGS requires changes to allow processing at a transactional level in real time. Personnel costs will potentially increase as staff will be needed to monitor activity during the extended periods. Credit unions would need system integration with real time balance monitors and higher excess balances to ensure adequate settlement funding. 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 would depend on many factors. Availability of core processors and vendors to design, distribute and implement the required changes/upgrades will dramatically impact the industry's ability to achieve the goal of ubiquity. The timeframe can be better scoped once clear direction is defined.

Given the premise that faster payments is based on a credit push system, the customer impact would be positive with minimal to no changes. Customers may need new agreements for services and definitions of consumer liability if falling under Reg E and Reg CC.

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 Corporate Alliance is in agreement 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, many existing solutions may incur extensive costs in re-tooling their solution.

Regardless of the final timeline set, we believe the key is Federal Reserve leadership. Credit unions, service providers and the market will develop the required products and services in order to participate once a timeline is formed. Although there is significant progress in private sector initiatives, 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.

Check 21 and Same-Day ACH provide guides or examples in determining a timeline needed for implementation. The timeframe will ultimately be determined by the final solution. Ideally the system would need to be in place within 2 years. Assuming a 2 year period for Federal Reserve development, it is possible that credit unions and their industry partners may have adequate time to develop systems and processes to support the new payment rail. A current concern is the pace at which vendors are able to implement solutions to meet the demand. While an individual implementation may take a few months, the availability of vendors, such as core providers are a significant factor in the timing.

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 operations, 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 significant, lessening funds availability for investments and loans. The impact to earnings could also be significant 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?

All Corporates agreed that 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 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. 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 would need to be changed to manage new risks related to RTGS, including new controls. Additional staffing would be required to perform the balancing of this separate settlement 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?

The Corporate Alliance 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 in order 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 providing 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?

In general, the Corporate Alliance favors 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.

Responses from the Corporate Alliance were mixed with regard to the use of RTGS for other purposes. We recognize the potential extension of RTGS to include other payment applications, but we are split in our support of the use of RTGS beyond faster payments. Please see individual Corporate responses for more detailed explanations.

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?

The Corporate Alliance 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. As a diverse group, the faster payments task force recommended expansion of the settlement window to facilitate real-time payments while reducing risk. We are confident that the RFC responses will support the task force's recommendation to implement RTGS.

Establishing a joint task force at this juncture may be redundant given the industry support reflected by the task force. 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 and specifically 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, the Corporate Alliance members are split in their support of the use of a separate account. Some members recommend the setup of a sub account of the Master account with overall funding to be managed as one account. All members agree that if a second account is required, the FRB 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.

In the absence of a tool to manage liquidity, potential consumer impact would be experienced when the account is -0- and cannot be replenished until next business day.

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

Please see the various comments received in support of each option below.

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 (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.

This system would most likely require an agent authorization to make inter-day transfers or sweeps.

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?

The Corporate Alliance is in agreement 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?

The Corporate Alliance 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 are in agreement that 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 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?

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

The Federal Reserve is a trusted payments 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 P2B 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?

The Corporate Alliance 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 B2B, P2B and P2P adoption. Potential fraud and compliance could slow adoption if it burdens further the FI's while exempting FinTech's.