



MIDWEST INDEPENDENT BANK

MISSOURI • NEBRASKA • IOWA • ILLINOIS

Ms. Ann Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20429

Re: Docket No. OP-1625 - Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments, Request for Comments

Dear Ladies and Gentlemen:

Midwest Independent Bank and our below signed fellow community bank peers appreciate the opportunity to comment on potential Federal Reserve actions to support interbank settlement of faster payments. As noted in the request for comment document summary: "As part of its overall mission, the Federal Reserve has a fundamental interest in ensuring there is a safe and robust payment system..." We wholeheartedly agree. Further, according to the Federal Reserve Systems Purposes and Functions document: **[FRB payment functions]** "underpin US Financial Markets and private sector clearing, payment and settlement arrangements; support the implementation of monetary policy and contribute to the overall stability of the US Financial System and economy." As such, we contend it is not only appropriate and good for the Federal Reserve Bank to serve the payment industry in this manner, it is indeed a part of its larger purpose and mandate.

Specifically, the Federal Reserve Bank should begin its direct support of faster payments by providing a 24 x 7 x 365 Real Time Gross Settlement (RTGS) option. This not only supports all existing financial system endpoints, it serves to support any private sector innovation currently underway and appropriately considers potential future innovation that is still yet to come. RTGS is becoming the global immediate payment infrastructure design of choice for good reason. Interbank settlement risk is measurable and can and should be mitigated on the front end. DNS need not to be considered for this type of payment. That said, we see no reason why the Fed should not also endeavor to fully support faster payment advancements within existing payment rails such as ACH. Such support will lead to a natural progression to faster, safer payments in the near term while the Federal Reserve Bank builds the necessary infrastructure to support immediate/instant payments for the future. It is absolutely appropriate to engage in this undertaking methodically. There is time to pause long enough to ensure this effort is done well. It is also critical that the Fed gets to work right away. The longer the delay, the more risk will undoubtedly be introduced into the US Payment System as the broader market attempts to align the speed of payments with the speed of data.

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One Source. One Call.

The Federal Reserve Bank should also move forward with its proposed *Liquidity Management Tool(s)*. Community banks continue to provide strong, trusted and meaningful support to local communities across the country. Providing tools to appropriately manage liquidity dollars needed to fund payments that occur outside traditional business hours is critical to encouraging involvement and engagement by all financial institutions; including the smallest. Community banks are nimble, resourceful and genuine in their support of their local communities, but what they generally do not have are large call centers and 24 hour treasury management teams in place. Liquidity Management tools will provide the broader market with the ability to manage such activity safely and with confidence at all hours of the day and night, as well as on weekends and holidays, either directly, or indirectly through the use of an agent.

Finally, we feel the Federal Reserve Bank should not stop with RTGS and the corresponding liquidity management tools, but should also act as an operator in the actual processing of faster payments, as well as, actively support a federated directory model to ensure the safe and secure transfer of payments across all parts of the industry. The Fed does not necessarily need to be the ultimate provider of such a directory, but could/should continue to support and engage in related dialogue.

It is well known that the private sector has introduced an option to the market, and that option can be welcomed and applauded; however, it is prudent for the market to continue to have choice, fair competition, true accessibility and perhaps above all, a solid level of resiliency available. Having both a private and public sector operator for check and ACH has served the payment system well. Instant/immediate payments deserve nothing less. "Iron sharpens iron." The Federal Reserve was designed to naturally have an internal "moral compass" that undeniably keeps the payment industry more stable, safe and secure. Above all other participants, the Federal Reserve Bank is trusted to ensure open access, efficiency, security and redundancy. Without this collaboration between the private and public sector, we are concerned undue risk will be introduced into this new payment system by non-regulated and/or under-regulated entities. The balance afforded by these public/private payment operator roles has for decades provided a competitive environment that benefits financial institutions, businesses and consumers alike. Further, as it relates to resiliency, you need only consider the tragic events of 9/11. Redundancy in uncertain times is critical. The Federal Reserve Bank had the support of the administration and Congress to respond swiftly to a disruption the private sector simply could not effectively respond to on its own. It is time for the Federal Reserve Bank to participate directly and fully in faster payment advances.

Again, we are very appreciative of this opportunity to respond to this request for comment and look forward to hearing how the Federal Reserve Bank will respond to this call for action.

Best Regards,

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