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17 December 2018

Ann E. Misback
Secretary of the Board
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue N.W.,
Washington, DC 20551

Submitted electronically via regs.comments@federalreserve.gov

RE: Potential Federal Reserve Actions to Support Interbank Settlement of
Faster Payments – Docket No. OP-1625

Dear Ms. Misback:

On behalf of the United Nations Federal Credit Union (UNFCU) we would like to thank the Federal Reserve Board (Board) for inviting comments on potential actions the Board may take to support interbank settlement of faster payments, as proposed in the Federal Register on 15 November, 2018 (the Proposed Rule). UNFCU's members are located in over 200 countries and territories throughout the world; our mission is to "serve the people who serve the world."

As a general matter, UNFCU supports the goal of developing a "ubiquitous, safe, and efficient" system for faster payments in the United States. In recent years, nations around the world have used technological advances to develop faster payment systems. UNFCU's global membership is particularly attuned to international developments and reasonably expects its U.S.-based financial institution to meet service standards, like faster payments, that are increasingly common abroad. Developing a secure, reliable, and efficient faster payments system in the U.S. would therefore help UNFCU to continue providing members the superior service they have come to expect. The Board posed several specific questions relating to the development of a faster payments system. UNFCU's comments on those questions follow.

Real-time gross settlement

The Board has specifically requested comments on whether real-time gross settlement (RTGS) "is the appropriate strategic foundation for interbank settlement of faster payments." UNFCU supports RTGS as the optimal foundation for interbank settlement of faster payments because only in an RTGS scenario can payments actually settle in real time—or near real time—without any counterparty risk. By contrast, using deferred net settlement (DNS) still represents some risk to

counterparties. Furthermore, the “batch” nature of DNS frustrates a central goal of faster payments, slowing down the process by adding time between the clearing, posting, and settlement steps of a given transaction.

Auxiliary services

Additionally, the Board requested comments on the necessity to a faster payments system of (1) a proxy database or directory that would route payments using an end-user’s alias, rather than bank account information; and (2) tools for detecting and preventing fraud. UNFCU strongly supports the inclusion of both types of service. For any faster payments system to be viable, users will need assurance that the system does not sacrifice security for convenience. Fraud prevention, in particular, is a critical element in providing that assurance. As for who should provide these services, UNFCU supports either a public entity—such as the Federal Reserve Bank—or a private entity or consortium—such as The Clearing House—providing directory and fraud prevention services. Critically, whatever entity acts as service provider must ensure ubiquity and equal access for all interested participants. The service provider must not be permitted to create a competitive advantage for participants by leveraging service-related data while preventing some parties from participating.

Interoperability

The Board also requested that stakeholders comment on how critical they regard interoperability to be in the development of a faster payments system. UNFCU regards interoperability as a highly desirable characteristic for any viable faster payments system. If true interoperability is not immediately available at the launch of a new system, the Board should put in place a roadmap that guarantees full interoperable functionality within an 18-24 month timeframe.

Furthermore, a new faster payments system could be designed to include ISO 20022 messaging standards, now required for inter-jurisdictional processing within the European Union’s Single European Payments Area. Maintaining interoperability with ISO 20022 would benefit financial institutions and their members, both by enhancing the efficiency of payments, whether domestic or international. Interoperability would also aid credit unions in fulfilling their anti-money laundering and sanctions-related regulatory obligations by providing a broader dataset to monitor.

Given the global nature of UNFCU’s members, interoperability with the prevailing global standard for payments is a significant concern. Ensuring that a faster U.S. payments system is interoperable with other countries’ systems would improve cross-border functionality, helping to work toward the one of the goals the Board outlined in its Strategies for Improving the U.S. Payment System (SIPS) initiative: “Better choices for consumers and businesses to send and receive convenient, cost-effective, and

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timely cross-border payments.” UNFCU’s strongly supports such improvements in cross-border payments functionality and encourages the Board to consider that functionality as an essential element of any faster payments system.

Liquidity management tool

Finally, the Board requested comments on whether the provision of a liquidity management tool would help address liquidity management issues associated with a 24x7x365 faster payment system, and, if so, what characteristics and capabilities such a tool should have. UNFCU supports the inclusion of a liquidity management tool as part of a faster payments system. Ideally, a liquidity management tool would allow for configurable thresholds in the funding account so that funds could be transferred automatically on an as-needed basis during off-hours (evenings and weekends) to allow uninterrupted settlement of real time payments. This would allow financial institutions to manage liquidity effectively without incurring additional staffing costs or tying up funds that may or may not be required to fund settlement of payments outside of normal operating hours.

Thank you again for inviting comments on this important matter.

Respectfully,

Bill Thomas
FVP, Member Operations

cc: William Predmore, President/CEO, UNFCU