

December 14, 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,

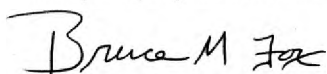
Catalyst Corporate Federal Credit Union is submitting comment on the Request for Comment from the Federal Reserve Board of Governors related to the Real Time Gross Settlement (RTGS) tool for faster payments. Catalyst Corporate is a wholesale cooperative financial institution that serves more than 1,400 member and client credit unions across the United States. Catalyst Corporate provides its members with core financial services and back office support, including payment solutions, liquidity investment options and balance sheet management assistance.

Catalyst Corporate appreciates the opportunity to comment on this potential action and commends the Federal Reserve for taking this step. Catalyst Corporate is supportive of the Federal Reserve pursuing the development of RTGS and believes this will benefit the industry in achieving ubiquity around faster payments.

Catalyst Corporate believes the role of the Federal Reserve is critical in bringing about wide scale use and acceptance of faster payments. We also believe RTGS will bring fairness and equity across all financial institutions in serving their customers and members.

Response to the questions are as follows:

Respectfully submitted,



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Questions

1. Is RTGS the appropriate strategic foundation for interbank settlement of faster payments?

Why or why not?

Yes. There is clear consumer demand for real time payments. RTGS is an important step in the movement toward faster payments. By providing both settlement and payment instruction, this solution will encourage ubiquity and is consistent with the role the Federal Reserve plays in existing payment rails.

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. The Federal Reserve is best equipped to reach all financial institutions which is critical in all payment systems. Achieving the broad scale participation necessary for widespread adoption will be a significant challenge if the nation relies solely on the private sector. Outside of the larger banks, the private sector will struggle to provide these services in an equitable manner to those citizens using community banks and credit unions. A Federal Reserve solution will create the opportunity for a safer and more level playing field for all financial institutions, businesses and consumers.

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?

Sufficient demand and use cases for RTGS exist today and will continue to grow over time. There are wide application needs for adoption with a broad source of demand driven by consumers, merchants, and financial institutions.

Currently these types of transactions are satisfied by other payment methods and include Consumer to Consumer, Consumer to Business and Business to Business just not on a real time basis.

To date, the majority of credit unions have taken a wait and see approach toward faster payments. A significant, contributing factor is credit unions' and smaller financial institutions' reliance on third parties for the infrastructure required to participate. As such, regulation or a mandate from the Federal Reserve requiring all financial institutions to be enabled to participate in RTGS would provide the greatest benefit to the industry as it would drive adoption down to the third-party providers that create and support the infrastructure necessary to enable participation from credit unions and financial institutions of all sizes.

- 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?

Based on the understanding that this will be a credit push system, the business and consumer impact will be positive with minimal to no changes. However, most financial institutions and supporting systems are designed around batch processing with a defined end of day. As a result, financial institutions and

supporting third-party providers will experience substantial impact in order to support 24x7x365 RTGS at a transactional level. Changes in core processing, vendor relations, technical and customer support will be required in order to effectively participate in the proposed RTGS. These evolutionary pain points are necessary to keep pace with domestic and world market demands and are simply the cost of doing business in today's connected world. The Federal Reserve playing a lead, operational role is critical to leveling the playing field for all U.S. financial institutions, making it possible for community banks and credit unions to compete with the larger financial institutions and other, nontraditional payments providers.

- 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 timeframe will ultimately be determined by the final solution, however, we believe it will realistically take the Federal Reserve no less than 3 years. Ideally the system would already be in place given the rapid, global adoption of faster payments, so emphasis needs to be placed on time to market when considering expanded functionality. While interoperability with other systems is ideal, we believe this should be addressed incrementally if it extends the initial entry of RTGS into the market.

Federal Reserve action and mandates to receive a RTGS transaction will ultimately facilitate widespread industry adoption. Financial institutions look to the Federal Reserve to play an unbiased, leadership role in initiatives of this importance and

magnitude. As stated previously, an industrywide mandate to be able to receive a RTGS transaction would further the acceleration of faster payments and assist credit unions and smaller financial institutions in having access to solutions needed from their third-party partners and core providers.

The publishing of a defined timeline for implementation by the Federal Reserve will be critical in aligning financial institutions and their industry partners in order to ensure the necessary changes to systems and processes for supporting this new payment rail are achieved.

- 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 will need to take place in moving to 24x7x365 operations.

These will include significant changes to areas such as customer and technical support. Smaller financial institutions will need to partner with existing third party relationships to accommodate a 24x7x365 process and the elimination of a defined end of day.

Among the operational change considerations are the increased number of transaction postings/settlements and the need to ensure core systems are able to

process this volume of activity. Additional considerations include the need for a guaranteed delivery mechanism for transactions to queue during the end of day cycle or any other down time events.

- 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?

Our recommendation is to capture this activity utilizing the existing subaccount structure already available to financial institutions today under their master account with the Federal Reserve. We do not see the value in requiring the use and management of a separate account for these transactions. Having the transactions flow through a subaccount would be more efficient and ensure coverage of balances from the real time transactions.

If it is determined that a second account is required, there should be the ability to have an automated process for moving a pre-established amount directly to or from the master account once a pre-determined threshold balance is met. In addition, there should be a credit line available off the master account to avoid overdrafts to the master account and separate account. The Federal Reserve should establish transaction dollar and volume limits within its RTGS systems to mitigate risk.

- 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 Federal Reserve is likely the best institution to provide this service as it has the broadest reach throughout the industry and is a trusted source to all financial institutions. The solution should use two levels of authentication including phone numbers and/or email addresses in lieu of account numbers to assist in fraud prevention.

The Faster Payment Taskforce came to a similar conclusion. This is a valuable auxiliary service and could potentially be beneficial in facilitating interoperability between faster payments networks.

- 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?

While fraud tools are a necessary part of the overall solution, existing providers that have developed payment system fraud products would likely be the best resource for providing/augmenting fraud services for RTGS. Each institution should provide fraud prevention services to its customers/members for these transactions. The Federal Reserve should also put in place transaction volume and dollar limits to mitigate risk.

- 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 important, particularly the development of a universal directory. Additional consideration should be given to areas such as transaction limits, NSF, and liquidity management.

We do not believe that a separate account is necessary, however, the ability to automatically transfer in and out of a subaccount of the master account is necessary.

- g. How critical is interoperability between RTGS services for faster payments to achieving ubiquity?

Interoperability is ideal in order to encourage innovation and alternative solutions. Interoperability is not necessarily a critical component for Day 1 or in determining whether or not the Federal Reserve should develop a RTGS service.

- 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?

RTGS has the potential to settle additional transactions through existing payment rails. Our understanding is that initially the system would be designed to support domestic transactions only, however the potential exists for supporting international transactions in the future.

- 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?

For an initiative as significant as RTGS, it is important for the Federal Reserve to provide the leadership and forums for industry collaboration. The creation of the initial task force was very positive for the industry to move forward with real time payments. A similar model to help identify best practices for faster payments would be beneficial, however should not take precedence over getting RTGS to market. Speed to market should be a high priority. Interoperability will be key to the success of wide spread adoption. Convening a group focused on the technology solution definition that includes organizations of all sizes including those with on-premise and/or cloud-based data centers will be important for rapid adoption.

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?

Our recommendation is the use of a sub account under the master account to allow for all funding and management under a single account. If a second account is required, the Federal Reserve should develop an automated tool that will move funds from the master account to the separate account or back to the master when peg balances are hit. In addition, there should be a credit line available off of the master account that would cover the separate account to avoid daylight overdrafts of both accounts.

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
- 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 with significant importance placed on the need for an automatic transfer of balances based on pre-established thresholds and limits.

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?

Our recommendation is that there will be a subaccount of the master account with the ability to automatically move funds 24x7x365. As a subaccount of the master account, we’d see these account balances used for satisfying reserve requirements and earning interest. A liquidity management tool would also need to set limits on volume and dollar amount of RTGS transactions to mitigate risk.

- 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?

There is the potential to use this tool for other purposes. One opportunity we would be interested in exploring is settlement between corporate credit unions and other, similar institutions.

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?

A tool to provide automatic transfer of funds from the master account to the separate account is important to have in tandem with the development of RTGS should it be determined that a separate account is required. Our recommendation is to use a subaccount of the master account for these transactions. A liquidity management tool would also need to set limits on volume and dollar amount of RTGS transactions to mitigate risk.

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 facilitates ubiquity and creates an entry path for all institutions. The Federal Reserve is a trusted partner for payments infrastructure, so the adoption will be greater than that provided by private sector efforts that are operated/owned by a small number of financial institutions. The Federal Reserve should also consider efforts to mandate participation in faster payments. This will

ensure third-party service providers develop the capabilities necessary for credit union and small financial institution participation.

Currently P2P offers real time funds to the beneficiary, but the financial institution is required to wait for funds until the next business day. The RTGS solution offers greater value and less credit risk to receiving banks.

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. The Federal Reserve's leadership, communication and education on faster payments and RTGS will help drive participation.

The Request for Comment is silent on security, operational practices, dispute resolution, regulations and statutes that need development. The FRB should be proactive in determining what regulatory changes are needed to optimize the benefits of real time payments.

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 Federal Reserve should determine regulatory changes that provide the protections necessary in the development of faster payment channels. The Federal Reserve should conduct a comprehensive review of all current regulations and operating circulars to determine what modifications are needed to support an on-demand, faster payment rail and RTGS.

Included within those considerations, should be any Office of Foreign Assets Control (OFAC) considerations and Bank Secrecy Act (BSA) implications.

The Federal Reserve should also consider updates to its discount window lending practices and policies, as well as its payment system risk policy on intra-day credit. It would be beneficial if the Federal Reserve would consider overdraft from the separate accounts, after the master account is depleted, as under intraday credit.