



December 11, 2018

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

VIA ELECTRONIC MAIL: regs.comments@federalreserve.gov

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

Dear Ms. Misback,

Pacific Coast Bankers' Bank ("PCBB") is grateful for the opportunity to comment on the above referenced item. PCBB is a bankers' bank that offers payment and other correspondent banking services to hundreds of community based financial institutions throughout the country. Because of our standing as a bankers' bank, PCBB has taken an active role in the Federal Reserve's Faster Payments Task Force, and other faster payment and payment modernization efforts. As non-bank participants and others race toward implementing faster payment services, PCBB is concerned that community based financial institutions could be without viable options and further diminish their ability to service the needs of their customers.

Therefore, PCBB strongly urges the Federal Reserve to commit to the development of a 24x7x365 real time gross settlement service ("RTGS"), and a liquidity management tool as outlined in the Request for Comment. Having the Federal Reserve in this role would mirror approaches being used in other countries and allow banks of all sizes to have equitable access to a real-time interbank settlement infrastructure for faster payments over the long term. This will help ensure a reliable nationwide payment infrastructure that is safe, efficient and widely accessible. Please find our comments on the proposal and responses to the questions posed in the request for comment below.

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

We believe a RTGS model is the appropriate strategic foundation for interbank settlement of faster payments. This structure would effectively mitigate counterparty credit risk for both banks and nonbank participants as all payments are made and settled in real time.

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

The Reserve Banks should develop a 24x7x365 RTGS settlement service. While it is widely expected that other platforms will be successful with real-time, or faster payments, the Reserve Banks' participation in developing a RTGS service will create a lower cost option that will enable all financial institutions, most notably community financial institutions ("CFIs"), to participate meaningfully in future payment models. This is key to meeting the goals of making faster

payments ubiquitous, providing equitable access, and encouraging competition among a variety of solutions.

Without the Federal Reserve's participation in developing a platform for interbank settlement of faster payments, the options for CFIs to participate in any of the alternative platforms would be limited and discourage broad adoption due to high cost of acquiring and implementing a solution. Additionally, the cost would make it unrealistic for the CFIs to develop and build a product. It is also anticipated that smaller CFIs might not even have access to products to use as entities which are working on creating or launching other RTGS products, such as core providers or organizations of larger financial institutions, may not be able to offer their products to CFIs in a profitable manner. In discussions that PCBB has had with various providers, some have disclosed that they either don't anticipate offering products to smaller CFIs as it couldn't be done in a cost effective manner for them, or they anticipate the product made available would have very limited functionality, such as being able to only receive a payment, not to make a payment.

If the Reserve Banks do not participate, interoperability would likely not exist or be significantly hampered. To illustrate this point, one of the real time products that has been created and is being launched by an organization of a larger financial institution has made it clear that their network is a closed network, and that both the sending and receiving financial institution must be a participant. With the Reserve Banks participating, there would be alternative platforms that will be able to have interoperability, which will ensure much deeper adoption throughout the entire payments ecosystem. Interoperability and ubiquity can't exist without each other and this is necessary for a successful ecosystem.

Question 3a *If the Reserve Banks develop a 24x7x365 RTGS settlement service, will there be sufficient demand for faster payments in the United States in the next 10 years to support the development of a 24x7x365 RTGS settlement service? What will be the source of demand? What types of transactions are most likely to generate demand for faster payments?*

We do believe there will be sufficient demand in the next 10 years to support the development of a 24x7x365 RTGS settlement service due to the natural evolution of payments that is already occurring. This is primarily a result of changing expectations of consumers and businesses, and advances in technology. Demand is expected to build slowly at first, as financial institutions adopt the RTGS platform, and there will be a need to create and implement the front and back end technologies. Having the Reserve Banks develop a RTGS platform will help speed the adoption as there will be an industry wide set of standards that financial institutions and technology providers alike would need to base their products on, and this would facilitate broader adoption and interoperability for the entire system. PCBB anticipates that the initial demand would be from consumers as a P2P platform, and as more sophisticated features are created, it will migrate to be B2B, B2C and C2B payments.

Question 3b *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 benefit of creating a 24x7x365 RTGS settlement service? Why or why not?*

To support a 24x7x365 environment, banks would need to evaluate how they manage liquidity in their RTGS account at the Reserve Bank. CFIs typically rely on a bankers' bank, corporate credit union or other correspondent bank to manage their intra-day liquidity, and it would be natural evolution for bankers' banks, corporate credit unions or other correspondent banks to support 24x7x365 liquidity as well. This would not be a substantial change, and could be done in parallel with the Reserve Bank implementing the RTGS system. The costs and potential disruption would not outweigh the benefit of creating the 24x7x365 RTGS settlement service as the real disruption

would be for CFIs to not be able to participate in a real time or faster payment product, because if CFIs are unable to provide this service, the larger banks or nonbank providers will continue to control these payments.

Question 3c *What is the ideal timeline for implementing a 24x7x365 RTGS settlement service? Would any potential timeline be too late from an industry prospective? Would Federal Reserve action in faster payment settlement hasten or inhibit financial services industry adoption of faster payment service? Please explain.*

The ideal timeline for implementing a 24x7x365 RTGS settlement service would as quickly as possible. This will ensure that all financial institutions have a product to offer, which will help with the retention of customers and modernize the current financial services model. The longer the platform takes to be implemented, the more likely it is that payments will continue to migrate from the current providers, being mainly insured financial institutions, to nonbank providers. We don't believe that the Federal Reserve action of creating a RTGS settlement system would inhibit the adoption of faster payments services. If a financial institution wants to adopt a real time or faster payment product, they already have this as an option with the current solutions available. Having a cost effective option is vital to the CFIs adoption of real time payments. The lower cost of the Reserve Bank platform, operational efficiencies, and 24x7x365 liquidity management that can be provided by providers such as a bankers' bank, corporate credit union or other correspondent bank, give CFIs a successful, competitive product that increases the value of the services they offer consumers and businesses.

Question 3e *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?*

Having an account designed for RTGS settlement in addition to a master account would support a prudent risk management practice. There would be efforts required to forecast the funding requirement and to ensure sufficient funds, but these efforts would be offset by the additional control of having a segregated account. It would be beneficial to the CFI if they were able to use the funds to meet reserve requirements, as well as to earn interest on deposits. We don't believe that the treatment of these deposits would affect the demand for faster payment settlement, as most participants would likely only leave sufficient deposits to cover anticipated transactions. This should not have an impact on the liquidity of a well-capitalized institution.

Question 3fi *Regarding auxiliary services or other service options, 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 one 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?*

A payment routing directory should be created and maintained by the Federal Reserve. Characteristics of the directory should include masking of account numbers and other personal details, a look up based on a parameter specified by the end participant (such as a phone number or e-mail address), and means for a participant to have multiple settlement options with the ability to select one option as a default. Participating institutions would need the ability to send data to the Federal Reserve in real time to create or edit records for their end participants.

Question 3fii *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 are a key component to any payment system. Existing payment systems that route items through the Federal Reserve require that fraud detection and transaction screening be done by the participating institution. This should also be the case with the proposed RTGS service. This enables leveraging of existing resources, and empowers the participating institution to take a risk based approach based on their business model and risk assessment.

Question 3fiii *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 would be essential to the success and adoption of the platform, but in most cases these services should be provided by the private sector. This results in the services to be tailored and made unique by the participating institution, enabling them to differentiate the product they deliver from other providers. Transaction limits should be able to be set by the participating institution at an institution level, as well as an end participant level.

Question 3g *How critical is interoperability between RTGS services for faster payments to achieving ubiquity?*

Interoperability between RTGS services is necessary to achieve ubiquity. Having the Federal Reserve offer a RTGS service should encourage other platforms to modify current practices to facilitate interoperability, as it would be essential to be able to reach participating institutions that have not chosen to use other private and likely closed systems. Interoperability also encourages innovation and helps foster competition, which in the long term is good for both participating institutions and end participants.

Question 3h *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?*

When a product is launched, it is usually done with a clear objective in place as to the use case, expected outcome, and benefit. Once the launched product has matured and others have had the opportunity to explore how else it might be utilized, other use cases will surface, some of which will be successful, and some of which won't. This innovation should be considered a natural evolution of the service, and should be encouraged. While innovating shouldn't be restricted, direct access to the RTGS service should be limited to participating institutions in a manner consistent with limitation of direct access for other payment platforms.

Question 3i *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 the Board should establish Federal Reserve industry teams to focus on the items listed above, and the efforts should be structured in a manner similar to the Faster Payments Task Force. This will give participants an open forum to collaborate between each other as well as with the Federal Reserve.

Question 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?

The Federal Reserve should develop a liquidity management tool to support the settlement of faster payments made through the RTGS service that is being contemplated. Doing so creates a more complete solution for participating institutions, and is consistent with what the Federal Reserve currently does as a liquidity provider.

Question 5 If the Reserve Banks develop a liquidity management tool, a. What type of tool would be preferable and why? 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? 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 are several features that the Federal Reserve should contemplate when creating a liquidity management tool. It would be beneficial if it provided the flexibility to leverage any existing collateral that might already be held at the Federal Reserve. A participating institution should have the flexibility of initiating a transfer from their master account at any time, or set parameters that would cause a system generated movement of funds to occur, such as a balance dropping below a certain amount, or increasing to above a certain amount.

As a bankers' bank, PCBB traditionally acts as a source of pass through liquidity for our CFI clients. We would also request the ability to fund these obligations on behalf of other participating institutions, which would enable bankers' banks, corporate credit unions or other correspondent banks to continue to act as a source of pass through liquidity for the RTGS service.

Question 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?

Developing both the RTGS settlement service and the liquidity management tool at the same time would be the best approach. The two are complimentary to each other, and development in parallel will position the RTGS settlement service to be more broadly and quickly adopted, especially by smaller institutions currently lacking 24 hour operations.

Question 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?

Having the Federal Reserve create a RTGS settlement service as described in the Request for Comment will help achieve the goal of a ubiquitous, efficient, and cost effective faster payments. If the Federal Reserve does not move forward with a RTGS system, negative consequences are expected for smaller community based financial institutions such as: not having a viable, cost effective option available, being dependent on a small group of technology providers to have access to real time payments, and lack of interoperability and ubiquity. Creation of the liquidity management tool on its own may not make sense, but it will help the RTGS settlement services be more effective if the two are done together.

Question 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?

In order to ensure that CFI's that partner with correspondents, such as bankers' banks, corporate credit unions or other correspondent banks are able to participate fully and meaningfully, we strongly suggest that any action taken by the Federal Reserve to support faster payments include the ability for such correspondents to continue to play an active role in the success of the CFI.

Thank you very much for your consideration of our views. Should you have any questions or concerns, please do not hesitate to contact me by e-mail at sbrown@pcbb.com.

Regards,

Steve Brown
President and CEO