



December 14, 2018

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

Via Email: regs.comments@federalreserve.gov

Dear Secretary Misback,

Thank you for the opportunity to comment on the Federal Reserve's Federal Register Notice regarding Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments. INTRUST Bank applauds the efforts of the Federal Reserve over the past five years focused on improvement and modernization of the United States payment system which has led to this request for public comment.

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

Technological advancements have changed the way consumers and businesses conduct commerce, specifically it has sped up both the process and expectations. In this new digital era consumers can place orders from their mobile device at any time during the day and even experience same day delivery of goods. U.S. payment systems have not advanced at the same pace, creating a gap where goods can be received prior to final settlement of funds. To close this gap, payments must become fast, convenient, and accessible.

We believe it is important to modernize U.S. payment systems to ensure they are aligned to meet the evolving needs of the economy. As payment systems approach real-time to align with the real-time speed of commerce, settlement systems also need to evolve. Implementation of a Real Time Gross Settlement (RTGS) system for faster payments as opposed to Deferred Net Settlement (DNS) allows for more efficient management of risk, alignment with current private sector real-time payment systems, and future payment system innovation.

Deferred Net Settlement (DNS) creates a delay between the time a financial institution must make funds available to the end-user and when the financial institution receives final settlement of the funds, introducing risk to the receiving bank. Many nonbank payment platforms attempt to provide "faster" payments while still utilizing traditional DNS methods, imposing final settlement risk on receiving

financial institutions. The use of RTGS offers the opportunity to mitigate the risks of DNS and in many cases provide the receiver with quicker access to their funds.

It is also important that any interbank settlement solution offered by the Federal Reserve be interoperable with current or future faster payment solutions. The Faster Payments Task Force's "Faster Payments Effectiveness Criteria" defines as effective; approval and clearing within 5 seconds, availability within 30 seconds, and settlement as less than 2 hours. The current private sector solution is achieving approval, clearing, and settlement within 1 minute through the use of RTGS. The Task Force's effectiveness criteria has laid a foundation for future payment system innovation, given the unprecedented speed at which payments technology is evolving we believe the Federal Reserve's resources are best utilized implementing RTGS over incremental enhancements to DNS.

In order to properly manage the risk of growing demand for faster payments, offer interoperability with current real-time payment systems, provide a solid foundation for innovation and provide the for the future, INTRUST Bank believes Real Time Gross Settlement is the appropriate method for interbank settlement of faster payments.

Should the Reserve Banks develop a 24x7x365 RTGS settlement service?

The Federal Reserve has a history of playing a critical role in the U.S. payments system guided by three fundamental public policy objectives; accessibility, integrity, and efficiency. We believe the Federal Reserve can, and should develop a 24x7x365 RTGS clearing and settlement service, and doing so will be consistent with the Federal Reserve's historical role in the U.S. payment system.

Accessibility

Ubiquity, the ability for all participants to be able to send or receive payments, is fundamental for any new payment system's success. While the use cases for faster payments will be applicable across a broad set of participants from consumers, retail and commercial, the most pressing cases center around the consumer as a participant. The ability to reach consumers will require all financial institutions to have access to faster payments systems, and we believe the Federal Reserve's participation is key in achieving this outcome. The current private sector, real-time payments solution is owned and operated by the largest U.S. commercial banks. While their stated intention is to provide their services to all U.S. financial institutions, as a community bank, we question their ultimate ability, and willingness to do so.

Community banks represent a significant portion of the overall U.S. banking system, actively engaged in their local communities, often providing access to financial services in geographies where larger financial institutions are either unwilling or unable to serve. The Federal Reserve has a long history of supporting and providing payment system access to community banks and through that support it has established a high level of trust that uniquely positions the Federal Reserve to ensure that faster payments reach every endpoint. The current structure of ACH Operators, the Federal Reserve and The Clearing House, provide an excellent example of private and public sectors working together to achieve ubiquity within a payment system, we believe this model should be followed for faster payments as well.

Integrity

We believe it is not in the best interest of all participants for a new faster payments channel, which represents the future of the U.S. payment system, to be wholly owned and operated by private sector participants, in particular the largest U.S. financial institutes. Development of a new national payment channel should include ensuring that any such system is safe, reliable and resilient. The Federal

Reserve's participation will be critical to ensuring the overall resiliency of the U.S. payment system, particularly in times of financial crisis.

Efficiency

Providing alternative faster payment clearing and settlement options will encourage competition fueling innovation as well as maintaining competitive pricing. As a community bank operating in an environment where banks and nonbank providers are no longer constrained by geography, access to payment services at a competitive cost is critically important to our ability to compete effectively.

INTRUST Bank encourages the Federal Reserve, under these tenets, to develop and operate a 24x7x365 RTGS clearing and settlement service.

Interoperability – Fraud Prevention – Directory Services

Interoperability should be considered an important attribute of any faster payments service developed by the Federal Reserve, essential to achieving ubiquity and access for all financial institutions. Fraud prevention services, including tools to detect fraudulent transactions will be crucial for successful implementation of faster payments and to encourage adoption by INTRUST Bank, other community banks, and the general public. Directory services have demonstrated value as a key component of many payment systems either already operating today or under development. The Federal Reserve can play a key role in a real-time fraud prevention solution or directory services for faster payments through continued efforts to convene industry participants to work together toward collaboration, interoperability and utilizing common technical standards.

Should the Federal Reserve develop a liquidity management tool to support real-time interbank settlement of faster payments?

Regardless of the Federal Reserve's decision on development of a 24x7x365 RTGS clearing and settlement service, liquidity management tools will be critical in helping financial institutions manage funds for real-time payments. The current private sector, real-time payments solution, operates 24x7x365. Financial institutions participating in this solution will be required to prefund a separate joint Federal Reserve account creating a gap for managing these funds as current interbank settlement options only operate during traditional business hours. Development of liquidity management tools allowing for interbank transfers outside of traditional business hours can significantly assist financial institutions in managing these funds, particularly if facilitated through automated transfer options, or allowing these funds to remain within current Federal Reserve master accounts. It will be important for the Federal Reserve to engage with financial institutions as they consider how to develop these tools as there will be impacts to financial institutions managing Federal Reserve balances 24x7x365.

There are significant market pressures that will continue to push private sector and nonbank providers to develop and implement faster and real-time payments. We believe it is vitally important for the Federal Reserve to participate fully in development of faster payment systems to ensure they are safe, reliable and accessible to all financial institutions.

The Federal Reserve, through its Strategies for Improving the U.S. Payment System, has made significant progress in bringing together a diverse group of payment system stakeholders and acting as a catalyst for innovation and development of faster payments. Through this effort you have received significant industry input. As a member of the Federal Reserve's Faster Payment Task Force, we ask that as you consider public comments on these initiatives that you place appropriate weight on two specific recommendations of the Task Force, which the Small and Medium bank segments were very active in

ensuring their inclusion: 1) Recommendation 5 - Enhance Federal Reserve settlement mechanisms to support the faster payments system, and 2) Recommendation 6 - Explore and assess the need for Federal Reserve operational role(s) in faster payments as you consider actions to support.

INTRUST Bank appreciates the opportunity to comment on this important initiative and we believe it is critical for the Federal Reserve to develop and operate a 24x7x365 RTGS clearing and settlement service, liquidity management tools, and to do so swiftly and decisively. We firmly believe the Federal Reserve's participation is crucial for INTRUST Bank and other community banks to remain competitive and continue to provide safe, reliable, and innovative financial services to the accountholders in our communities.

Thank you again for the opportunity to comment on these potential actions to support interbank clearing and settlement of faster payments.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael DeBroeck", with a horizontal line extending to the right.

Michael DeBroeck, AAP, CTP
Director – Commercial Lending Support Services
Treasury | International | Business Development