



December 14, 2018

**KeyCorp**  
127 Public Square  
Cleveland, OH 44114-1306

***By Electronic Mail***

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

**Re: Potential Federal Reserve Actions To Support Interbank Settlement of Faster Payments, Docket No. OP-1625, 83 Fed. Reg. 57,351 (Nov. 15, 2018)**

Dear Ms. Misback:

KeyCorp and KeyBank National Association (together, “KeyBank”) appreciate the opportunity to comment on the Request for Comments issued by the Board of Governors of the Federal Reserve System (“Federal Reserve”) seeking the public’s input on potential actions the Federal Reserve could take to promote ubiquitous, safe, and efficient faster payments in the United States by facilitating real-time interbank settlement of faster payments.<sup>1</sup>

KeyBank is a regional bank headquartered in Cleveland, Ohio with more than \$137 billion in assets, \$86 billion in outstanding loans, and over \$105 billion in deposits. We employ more than 18,000 individuals and have a 15-state retail footprint stretching from Maine to Alaska, serving customers through over 1,100 community bank branches and more than 1,500 ATMs. KeyBank provides our approximately three million clients with a variety of financial services, including deposits, lending, cash management, and investment and financial advisory services. KeyBank has a diverse and experienced Board of Directors and leadership team and an award-winning culture of diversity and inclusion. We are particularly proud to be a top ten Small Business Administration Lender, a national leader in affordable housing finance, and to have earned nine consecutive “Outstanding” Community Reinvestment Act ratings from the Office of the Comptroller of the Currency.

The development and maintenance of safe, consistent, and accessible payment networks is an issue of paramount importance to the U.S. banking system and to the long-term health of the national economy. We agree with the Federal Reserve that “[t]he importance of payment and settlement systems in daily lives and . . . for all financial transactions underscores the significance of its safe and proper functioning for the U.S. economy[,]”<sup>2</sup> and we firmly believe that our payments systems “must continually evolve to meet the needs of an economy that is becoming more global, digitally-interconnected, real-time and information-driven.”<sup>3</sup> Given the

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<sup>1</sup> 83 Fed. Reg. 57,351 (Nov. 15, 2018).

<sup>2</sup> *Id.* at 57,353.

<sup>3</sup> Faster Payments Task Force, The U.S. Path to Faster Payments (Part 2), 3 (July 2017).

importance of the issue, we commend the Federal Reserve for taking an active role in this area over the past several years, most notably through the FedPayments Improvement project and related initiatives. As we move closer to the reality of ubiquitous real-time payments and settlement, we appreciate the opportunity to provide our perspective on the types of actions we think the Federal Reserve should take to help achieve nationwide access to safe and efficient faster payments. We also appreciated the recent opportunity to discuss the topic with industry participants and Federal Reserve staff at the Faster Payments Settlement Assessment Town Hall held at the Federal Reserve Bank of Cleveland.

Faster payments is a rapidly evolving area and the industry has seen enormous growth in payments functionality over the past several years as evidenced by advancements including Zelle, Same Day ACH, immediate payment solutions from MasterCard and Visa, and a variety of non-bank services such as PayPal and Venmo. As part of this trend, in 2013 the Federal Reserve established a payments initiative to engage with industry and other stakeholders for the purpose of upgrading and enhancing the nation's payment system.<sup>4</sup> This initiative ultimately led to the formation of the Faster Payments Task Force ("Task Force"), a diverse 320-member group that created a set of criteria and recommendations surrounding the development of faster payment services in the United States. KeyBank was a participant in the Task Force and was actively involved in the development of its recommendations. The Federal Reserve, acting on these recommendations, established the goal of "a payment system in the United States that is faster, ubiquitous, broadly inclusive, safe, highly secure, and efficient by 2020."<sup>5</sup>

In line with this recommendation, KeyBank has been participating in an initiative alongside other banks to develop the RTP<sup>®</sup> network, a real-time gross settlement ("RTGS") and clearing infrastructure launched by The Clearing House Payments Company, LLC ("The Clearing House") in 2017.<sup>6</sup> The RTP<sup>®</sup> network was built to meet the demands of the modern digital economy by delivering 24x7x365 clearing and real-time interbank settlement of transactions, combined with robust messaging and data capabilities. The Clearing House has carefully tailored the design of RTP<sup>®</sup> to conform to the principles laid out in the Task Force's effectiveness criteria and in the Federal Reserve's guiding principles. The RTP<sup>®</sup> network is designed for financial institutions of all sizes, and its low flat-pricing schedule is the same for all participants, regardless of size and payment volume, which will help ensure universal access. The RTP<sup>®</sup> network is currently on track to reach approximately 50 percent of U.S. demand

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<sup>4</sup> Federal Reserve, Payment System Improvement—Public Consultation Paper (Sept. 10, 2013).

<sup>5</sup> Faster Payments Task Force, Vision Statement, <https://fasterpaymentstaskforce.org/meet-the-task-force/> (last visited Dec. 4, 2018); Faster Payments Task Force, The U.S. Path to Faster Payments (Part 2), 15 (July 2017); Federal Reserve, Strategies for Improving the U.S. Payment System, Federal Reserve Next Steps in the Payments Improvement Journey (Sept. 6, 2017).

<sup>6</sup> Along with other banks, KeyBank is an owner of The Clearing House. Since its founding in 1853, The Clearing House has delivered safe and reliable payment systems, facilitated bank-led payments innovation, and has provided thought leadership on strategic payments issues. Today, The Clearing House is the only private-sector ACH and wire operator in the United States, clearing and settling nearly \$2 trillion in U.S. dollar payments each day, representing half of all commercial and wire volume.

deposit accounts by the end of 2018, and it should achieve the Task Force’s goal of a ubiquitous, safe, and efficient faster payment and settlement system by the end of 2020.

In the Request for Comments, the Federal Reserve requests comment on two potential actions for supporting real-time settlement of faster payments: (i) a 24x7x365 RTGS settlement service that would be provided by Federal Reserve Banks; and (ii) a Federal Reserve liquidity management tool to support RTGS.<sup>7</sup> The Federal Reserve plays a crucial role in settlement and interbank liquidity, and we strongly encourage the development of a liquidity management tool to support RTGS so the Federal Reserve can continue to effectively play that role in the future. A liquidity management tool is likely to “improve the level of participation by banks in real-time settlement infrastructure for faster payments” and will also reduce liquidity risk for participating institutions.<sup>8</sup> We do not believe that there is a need for the Federal Reserve to create its own RTGS service, however, due to existing innovations and initiatives in the marketplace, including The Clearing House RTP<sup>®</sup> network. We have significant concerns that the development of a Federal Reserve-sponsored RTGS service would cause “market fragmentation and [will] lower the prospects for ubiquitous faster payments in the United States.”<sup>9</sup>

KeyBank also participated in the development of a comment letter submitted by The Clearing House. We support the comments in that letter and encourage the Federal Reserve to consider it closely. This letter is intended to highlight perspectives that are unique to KeyBank.

A. A Federal Reserve Liquidity Management Tool Will Support the Growth of RTGS Services

As described by the Federal Reserve in the Request for Comments, RTGS services could create liquidity management risks due to the 24x7x365 nature of these payment systems.<sup>10</sup> The overarching goal of a developing a reliable and safe payments system could be undermined if transactions fail due to a lack of funds in participant accounts, or if the overall safety and soundness of participating institutions is threatened due to the real-time nature of faster payments. Although the RTP<sup>®</sup> network has implemented robust mechanisms to ensure the safety of participating institutions, there are currently times when institutions are unable to utilize the Fedwire Funds Service to add or withdraw excess liquidity, such as on weekends and holidays. The development of a real-time liquidity management tool will help to close these liquidity

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<sup>7</sup> 83 Fed. Reg. at 57,360–63.

<sup>8</sup> *Id.* at 57,363.

<sup>9</sup> *Id.* at 57,361.

<sup>10</sup> *Id.* at 57,359 (“At the same time, real-time settlement for faster payments may have liquidity management implications. Because RTGS-based faster payment services process and settle each payment separately, with continuous updates to settlement accounts on a 24x7x365 basis, participants in an RTGS-based service may need to monitor and manage their settlement accounts outside standard business hours to ensure that balances are available to settle each payment.”).

gaps.<sup>11</sup> This type of service would be fully consistent with the Federal Reserve’s goal of encouraging ubiquitous, safe, and efficient faster payments and we encourage consideration of ways the Federal Reserve can provide liquidity services to support RTGS, including through the expansion of the Fedwire Funds Service.

B. A Federal Reserve RTGS Service Is Not Necessary and Could Harm the Market for Faster Payments

Although we encourage the Federal Reserve’s continued involvement in faster payments—including through the development of additional liquidity management tools—we are concerned about the Federal Reserve developing its own RTGS service at this time and do not believe such a service is necessary in light of existing initiatives and the breadth of solutions already aimed at providing safe and efficient faster payments in the marketplace.

*First*, the development of a Federal Reserve RTGS service is not necessary due to the development of payment services that already achieve the faster payments goals of the Federal Reserve and the Task Force, including “ubiquity, efficiency, safety and security, and speed.”<sup>12</sup> Most notably, The Clearing House RTP<sup>®</sup> network has the capability to provide 24x7x365 clearing and real-time interbank settlement of transactions. The RTP<sup>®</sup> network is designed and built to be a payment system for all depository institutions—regardless of size—and it has taken steps to help ensure that the network is an attractive option for all institutions, including through the use of flat pricing and by making all rules and requirements transparent and publicly available.<sup>13</sup> Additionally, the RTP<sup>®</sup> network already has developed a number of features that will encourage additional innovation and functionality, including for example, a robust set of messaging capabilities that can be used for direct invoicing. By the end of 2018, the network should reach approximately fifty percent of U.S. demand deposit accounts and it is on track to reach ubiquity by the end of 2020.

*Second*, the development of an alternative RTGS service by the Federal Reserve could result in the fragmentation of the payments market and ultimately delay the implementation of real-time payments. As a practical matter, it will be a challenge for institutions to establish connections to multiple networks due to the expense and effort involved with these efforts, particularly for smaller institutions and community banks.<sup>14</sup> KeyBank, for example, recently

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<sup>11</sup> This alignment of settlement timing and liquidity will become increasingly important as RTGS is implemented by smaller institutions that may have less liquidity flexibility and as these services are utilized for larger dollar volumes on a daily basis.

<sup>12</sup> 83 Fed. Reg. at 57,354.

<sup>13</sup> See, e.g., The Clearing House, Real-Time Payments Operating Rules (Oct. 30, 2017), available at <https://www.theclearinghouse.org/payment-systems/rtp/-/media/6de51d50713841539e7b38b91fe262d1.ashx>.

<sup>14</sup> See, e.g., Faster Payments Task Force, The U.S. Path to Faster Payments (Part 1), 34 (Jan. 2017) (“Financial institutions of any size may face substantial costs in upgrading their systems to safely and securely process, post, clear, and settle transactions more quickly, particularly if the system rules require 24x7 availability. These costs will likely be front-loaded in the first few years of shifting to a new system.”).

implemented capabilities to receive payments on the RTP<sup>®</sup> network. This was a substantial project spanning several months, entailing hundreds of hours of employee time, and requiring a significant up-front commitment.<sup>15</sup> Due to the costs and resources associated with adding new payments capabilities, it is likely that many institutions will only join a single network, resulting in an avoidable fragmentation of the payments infrastructure. This fragmentation of the market has the potential to be exacerbated by the difficulties associated with interoperability of real-time payments networks. It is not clear how multiple real-time payments networks can interoperate due to the instantaneous nature of the transactions and the immediate availability of funds. We also believe that if interoperability was achieved, the existence of multiple networks would likely hamper innovation due to the need to coordinate technologies across multiple systems.

As has been widely recognized, the expansion of faster payments technology could have significant benefits for consumers and clients and will help to keep the U.S. banking system responsive to and competitive in an already global market. It is generally accepted that a shift to faster payments will increase the speed of transactions, reduce transaction costs associated with less efficient payment methods, such as checks, and increase availability of funds to the marketplace.<sup>16</sup> In the case of businesses, for example, users will have increased predictability in cash management and reduced transaction costs when making and receiving payments. The increased speed of access to funds could also have significant benefits for individual consumers. For example, consumers could access and use their paycheck on the same day that those funds are transmitted by their employer, reducing the dependence of many low- and moderate-income individuals on small dollar loans and check cashing services, which often have high interest rates and fees and unfavorable terms.<sup>17</sup>

We support and encourage additional involvement by the Federal Reserve in this important initiative and appreciate the Federal Reserve's leadership to date. And we believe the continued growth of existing real-time payment and settlement services, including the RTP<sup>®</sup> network, is the most expeditious route for the implementation of ubiquitous, safe and efficient faster payments in the United States. Even the suggestion that the Federal Reserve is considering its own RTGS service has slowed momentum around private sector solutions, and if the Federal Reserve decides to develop its own RTGS service, it is likely that some institutions will wait to join a network until that RTGS system is complete, causing substantial delays in implementation across the industry. Given the benefits likely to accrue from faster payments, we respectfully discourage the Federal Reserve from taking action that could slow or fragment ongoing efforts, including the development of its own RTGS system.

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<sup>15</sup> 83 Fed. Reg. at 57,361 n.50 (noting that the implementation of real-time payment capabilities across several networks may “generate a duplication of participant connection costs.”).

<sup>16</sup> See, e.g., Faster Payments Task Force, *The U.S. Path to Faster Payments (Part 1)*, 32–35 (Jan. 2017) (describing potential benefits to various industry participants due to faster payments); Faster Payments Task Force, *The U.S. Path to Faster Payments (Part 2)*, 3 (July 2017) (same).

<sup>17</sup> See, e.g., Letter to Jerome H. Powell, Congressional Black Caucus (Oct. 29, 2018) (describing potential benefits of faster payments to lower income communities).

KeyBank appreciates the opportunity to provide comments to the Federal Reserve and we respectfully ask for your consideration of the recommendations and suggestions in this letter. We firmly agree that the U.S. banking system needs “ubiquitous, safe, and efficient faster payments,”<sup>18</sup> and we commend the Federal Reserve for continuing to play a central role in this important initiative and for publicly considering ways it can facilitate that goal. We support continued involvement by the Federal Reserve in this area and believe that the development of a centralized liquidity management tool will encourage the growth of real-time payments, particularly for smaller institutions. We also believe it is unnecessary for the Federal Reserve to develop its own RTGS service at this time given that the industry has already developed safe, efficient, and broadly accessible RTGS technology. If you have any questions regarding the content of this letter or would like more information on this subject, please do not hesitate to contact the undersigned at (216) 689-0303. Thank you.

Respectfully Submitted,

KeyBank

By:   
Beth E. Mooney  
Chairman & Chief Executive Officer

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<sup>18</sup> 83 Fed. Reg. at 57351.