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December 14, 2018

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

Re: Docket No. Op-1625; Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments

Dear Ms. Misback:

U.S. Bank National Association (U.S. Bank) appreciates the opportunity to respond to the request for comment (RFC) issued by the Board of Governors of the Federal Reserve System (Board or Federal Reserve) regarding potential Federal Reserve services that may promote ubiquitous, nationwide access to safe and efficient faster payments.¹ As an active participant and supporter of faster payments, we strongly support the goals of the Faster Payment Task Force (FPTF), convened by the Board, of a safe, efficient, equitable, and ubiquitous faster payment system for the U.S. by 2020.² The Real-Time Payment (RTP) Network operated by The Clearing House Payments Company (TCH) currently exists to make safe and efficient faster payments in the United States and can meet the goals articulated by the Federal Reserve in the RFC. U.S. Bank was one of the first two banks to pilot the RTP Network operated by TCH and we are actively developing solutions to meet our customer's needs based upon their direct feedback. Our customers and counterparties require real time 24x7x365 payments and the economy and financial system will benefit from further innovation and progress in this area. The industry is supporting faster payments via Zelle™ and is experiencing a significant increase in transaction volume in 2018.

The RTP Network is built to meet the demands of the modern digital economy by delivering 24x7x365 clearing and real-time interbank settlement, combined with robust messaging and data capabilities, indistinguishable in operation from the system on which the Federal Reserve has asked us to comment. The necessary criteria for such a system emerged from the deliberations of the Federal Reserve's FPTF. The design of the RTP Network was adapted so there would be alignment with the principles and criteria produced through that collaborative effort. The RTP Network has been built with Federal Reserve encouragement, and in accordance with the 36 criteria set forth by the FPTF and the guiding principles of the Bureau of Consumer Financial Protection.

¹ 83 Fed Reg 57351 (November 15, 2018).

² Faster Payment Task Force (FPTF), Final Report: The U.S. Path to Faster Payments, (July 2017), available at fasterpaymentstaskforce.org.

The RTP Network is designed to meet the needs of financial institutions of all sizes and is working with third-party processors, bankers' banks and corporate credit unions to provide all community banks and credit unions with choices to connect to the RTP Network. The RTP Network's low, flat-pricing schedule is the same for all participants, regardless of institution size. There are no volume discounts, no volume commitments, and no monthly minimums for participating institutions. The RTP Network is on track to reach approximately 50% of U.S. accounts by the end of 2018³ and to meet the FPTF's goal of near-universal reach ("ubiquity") by 2020.⁴

We believe TCH's RTP Network, currently in production, will meet the goals of the FPTF without the need for the Board to develop a separate real-time gross settlement (RTGS) system for the reasons articulated below in our responses to the Board's questions. In fact, given the need for business customers to modify their processes and systems to support the new payment types and messages, we are also concerned that the a separate RTGS system may delay the overall adoption of faster payments.

We further believe that the Board will have a significant role to play even in the absence of an RTGS system. While we understand there are concerns from others in the industry that their interests and the interests of their customers may be better served by the development of a Federal Reserve alternative to the RTP Network, we believe these concerns are already addressed under current statutory requirements. The RTP Network is subject to examination and regulation by the federal banking agencies under the Bank Services Company Act to the same extent as the RTP financial institution participants,⁵ and is covered under the service provider examination guidance issued by the Federal Financial Institutions Examination Council (FFIEC). These requirements and the FFIEC examination process should ensure that all participants in the RTP Network are protected and that any consumer harms can be addressed by the banking regulators.

Further, while we support the idea of a liquidity management tool provided by the Federal Reserve System, we would require additional details to provide substantive feedback. We welcome future engagement with the Board to understand their views on liquidity management and the details of what would be proposed, including pricing, terms and the technology.

Referenced below is U.S. Bank's response to the Board's specific questions seeking input on whether the 24x7x365 RTGS system and the liquidity management tool, separately or in combination, or alternative approaches, would help achieve ubiquitous, nationwide access to safe and efficient faster payments.

- 1. Is RTGS the appropriate strategic foundation for interbank settlement of faster payments? Why or why not?** We do not think it is necessary for the Federal Reserve Banks to make the investment in an RTGS system, a new single payment settlement solution, when they could modify their Net Settlement Service (NSS) process by increasing the hours of availability. This new expanded settlement window could potentially facilitate the liquidity management requirements in a faster payments ecosystem.

³ TCH, Comment Letter to 83 Fed. Reg 57351 (November 15, 2018)

⁴ FPTF, Final Report: The U.S. Path to Faster Payments, (July 2017), available at fasterpaymentstaskforce.org

⁵ 12 U.S.C. §1867(a)

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

The private sector has already implemented a successful settlement solution, TCH's RTP Network. All financial institutions (FIs) can currently join directly or indirectly via their core processors into the RTP Network, the existing faster payments ecosystem. If the Federal Reserve implements the RTGS system, we would be concerned that this would delay adoption by FIs of a faster payment system. We also believe that business customers will be slow to adopt a new payment system if there is uncertainty with respect to interoperability and ubiquity. To that end, without interoperability with existing settlement solutions, RTGS may cause fragmentation and increase overall industry expense.

3. Does the Federal Reserve's provision of the 24x7x365 RTGS settlement service yield a societal benefit and serve an important part of the foundation for the nation's future payment system? TCH's RTP Network is meeting societal needs and benefits. While we applaud the Federal Reserve's leadership in faster payments, we believe the societal benefits of the RTGS system may be outweighed by the possibility that this could delay the overall industry adoption of a faster payments system.

4. If the Reserve Banks develop a 24x7x365 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?

Yes, there will be sufficient demand to utilize a faster payments system from new products and use cases, resulting in further digitizing transactions, but we believe this demand will be satisfied through the RTP Network.

i. What will be the sources of the demand? What types of transactions are most likely to generate demand for faster payments? With time, existing use cases for faster payments like person-to-person (P2P), business-to-business (B2B), consumer-to-business (C2B), and business-to-consumer (B2C), will generate demand for additional payments. We also believe there will be some shifting of payments from existing payment methods such as cash and check and low dollar wire transfers. As we have seen over the past decade, innovation in financial services continues to occur. We expect this trend will continue upon a new payment system with the robust data capabilities of the RTP Network.

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? The financial industry has made substantial investments to effect current market solutions. We are concerned that in order to operate within the Federal Reserve's RTGS service, FIs and businesses would be required to make additional investments in capital and time, as each FI would be required to reassess its legal agreements, risk management, risk policies, customer service, operations, and technology.

i. Are the costs of adjustment and potential disruption outweighed by the benefits of creating a 24x7x365 RTGS settlement service? Why or why not?

With the implementation of TCH's RTP system, seamless interoperability with RTGS will be necessary in order to minimize disruption.

- c. **What is the ideal timeline for implementing a 24x7x365 RTGS settlement service?** The ideal timeline for implementing a 24x7x365 RTGS settlement service should be based on the Federal Reserve's FPTF's goal for ubiquity in 2020.⁶
- i. **Would any potential timeline be too late from an industry adoption perspective?** Anything beyond 2020 may be too late as the industry has already implemented a faster payments solution, the RTP Network, that is meeting the market's needs.
 - ii. **Would Federal Reserve action in faster payment settlement hasten or inhibit financial services industry adoption of faster payment services? Please explain.** The multi-year development and implementation of RTGS may delay FI adoption of existing faster payments solutions, which may further delay customer access to the faster payments ecosystem.
- 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?** For FIs with faster payments capabilities like U.S. Bank, there would be significant expense and re-engineering to support an additional service, such as RTGS, by operational services, technical support, and treasury resources. Additional resources would be required to manage RTGS.
- i. **What time frame would be required of these changes?** Without technical requirements for RTGS provided by the Federal Reserve, we would assume it would take a minimum of 24 months or more to implement the new settlement system.
 - ii. **Would banks want the option to defer receipt of such information for nonbusiness days to the next business day?** In a 24x7x365 RTGS settlement service or expanded NSS 24x7x365, there would be no need to delay receipt to the next business day.
 - iii. **If necessary changes by banks represent a significant constraint to timely adoption of seven-day accounting for 24x7x365 RTGS settlement services, are there alternative accounting or operational solutions that banks could implement?** Expanding the current NSS to a 24x7x365, in concept, would be an easier and more successful implementation for FIs.
- e. **What incremental operational burden would banks face if a 24x7x365 RTGS settlement service were designed using accounts separate from banks' master accounts?** Without technical requirements, we would assume operating a separate RTGS account would require FIs to incur a one-time development, testing, and implementation expense, plus additional resources. Additionally, FIs may delay implementation of one or both settlement solutions until there is more clarity in the ecosystem.

⁶ FPTF Final Report: The U.S. Path to Faster Payments, (July 2017), available at fasterpaymentstaskforce.org.

- i. **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?** If there was a separate account for a faster payments settlement, it would be beneficial to earn interest and meet reserve requirements. However, we believe that this account structure alone, will not increase the demand for faster payments within the industry.
- f. **Regarding auxiliary services or other services 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?** The auxiliary services mentioned are currently being met by industry solutions. If the Federal Reserve implemented a RTGS system with auxiliary services, then additional information would be required, such as fee structure, product features, and overall functionality before we can provide further response. The Federal Reserve should consider, that, by offering auxiliary services, it would potentially fragment the industry and increase complexity in the faster payments ecosystem.
 - 1. **How should such a database be provided to best facilitate nationwide adoption? Who should provide this service?** We suggest that the Federal Reserve not implement proxy databases or directory services, because existing solutions are already providing these services.
 - 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?** Existing solutions are providing risk mitigation at the network level. As planned, TCH RTP Network will deliver increased security and resiliency via their new tokenization technology. At the customer level, each FI is required to have appropriate security systems and anti-money laundering procedures in place to access the account.
 - iii. **How important are these auxiliary services for adoption of faster payment settlements services by the financial services industry?** The auxiliary services mentioned by the Federal Reserve are not required, as those services are currently offered by existing service providers and are meeting market needs.
 - 1. **How important are service options such as transaction limits for risk management and offsetting mechanisms to conserve liquidity?** Each FI is responsible for risk management by utilizing transaction limits at the account level.
 - 2. **Are there other auxiliary services or service options that are needed for the settlement service to be adopted?** No other services are needed by the Federal Reserve as the existing faster payments ecosystem is meeting the industry’s requirements for adoption.
- g. **How critical is interoperability between RTGS services for faster payments to achieving ubiquity?** If RTGS is implemented by the Federal Reserve, then interoperability with existing solutions would be critical to enhance the ecosystem. However, we cannot assume that RTGS settlement system can interface with existing

settlement systems. If RTGS is not interoperable with existing solutions, it will cause delay and fragmentation in the faster payments ecosystem. Ubiquity is not being delayed by interoperability considerations, rather by FIs delaying their decision to implement faster payments solutions.

- 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 could possibly be used for multiple purposes, however, a great deal of industry collaboration would still be necessary to determine the requirements of expanding RTGS into other payment types.
 - 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?** We recommend that the Federal Reserve explore the area of liquidity management further with the industry. We believe there is no need to further discuss interoperability, accounting processes or payment routing as these needs are being adequately met by the existing providers.
- 5. 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?** A liquidity management tool could be beneficial for faster payments and we are intrigued by this proposal. However, we would require additional information regarding services, account structure, interest, and other details, before we could support a liquidity management tool.
- 6. If the Reserve Banks develop a liquidity management tool,**
- a. What type of tool would be preferable and why?** Without detailed requirements provided by the RFC, we believe the industry would prefer all options as expressed in the RFC to be available to FIs, including: managed accounts and/or automated liquidity transfers up to 24x7x365.

 - i. A tool that requires a bank to originate a transfer from one account to another. A tool that allows an agent to originate a transfer on behalf of one or more banks. A tool that allows an automatic transfer of balances (or “sweep”) based on pre-established thresholds and limits.** The industry would have an interest in these features, but would require additional information from the Federal Reserve.
 - 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?** We believe liquidity management tools should be available 24x7x365.
 - 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?** Possibly, but more

information from the Federal Reserve would be required to understand the other purposes.

- 7. 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?** As outlined above, we believe the RTP Network will sufficiently meet the demand for faster payments, clearing and settlement, although we would be interested in collaborating with the Federal Reserve to better understand its perspective on liquidity management.
- 8. If the Federal Reserve pursues one, or both actions, do they help achieve ubiquitous nationwide access to safe and efficient faster payments in the long run?** We believe the industry has implemented a safe and secure faster payments ecosystem and are concerned that a new settlement system will create confusion within the industry and delay industry adoption until all systems are operational and feature functionality and operating expense can be fully understood. To utilize multiple settlement solutions, early adopters will need to reinvest as they connect to a new settlement system, such as the proposed RTGS service, and late adopters could be delayed by multiple years pending Federal Reserve implementation.

 - a. If so, which of the potential actions, or both, and in what ways?** Liquidity management tools may be beneficial to achieve ubiquitous faster payments ecosystem, but additional information is required.
- 9. 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 has played a key role in bringing real-time payments to the U.S. and should continue to do so by endorsing existing faster payments solutions and enabling off-hours NSS for bank-to-bank transfers as a liquidity management tool for FIs using private sector solutions. By doing so, the Federal Reserve would provide clarity regarding the faster payments ecosystem to all FIs and stakeholders.
- 10. What are the advantages and disadvantages of the design options and features of the two proposed tools?**

 - a. Could interbank settlement of faster payments occur in Federal Reserve master accounts, and use the same account-monitoring regime that is in place?** Since the industry has experience with the Federal Reserve master account, any enhancements for real-time payments would be less burdensome using the account-monitoring regime than creating a new dedicated account.
 - b. Could interbank settlement of faster payments occur in separate, dedicated faster payment settlement accounts for each participating bank with balances that could be treated as reserves, earning interest and satisfying reserve balance requirements?** A separate, dedicated faster payment settlement account could be beneficial, but additional information would be required.

11. 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? We applaud the Federal Reserve for leading the industry in the evolution of faster payments. It would be beneficial for the Federal Reserve to remain an industry leader and collaborator in striving for faster payments ubiquity. We would encourage the Federal Reserve to participate in the U.S. Faster Payments Council.

The Federal Reserve should consider its own longstanding policy regarding payment systems, which sets forth three conditions that must be present before the Federal Reserve may propose a new service or service enhancement.⁷ These include expectations that the Federal Reserve will achieve full cost recovery over the long run, the service will yield a clear public benefit, and the service is one that the private sector cannot be expected to provide with reasonable effectiveness, scope, and equity. We believe it is questionable as to whether these conditions have been satisfied. Specifically, the third condition makes clear that the Federal Reserve not offer a new payments product unless the private sector “cannot be expected to provide [the product] with reasonable effectiveness, scope, and equity.”⁸ As the discussion set forth above shows, the RTP Network is a private sector solution for effecting faster payments anywhere in the U.S. on a 24x7x365 basis. There is no suggestion, by the Board or any other public body or agency, that the RTP Network does not have the required effectiveness or scope, or that it fails to offer equitable terms. From our perspective, the private sector has done what the Federal Reserve anticipated it would do in 2015 when it published the “Strategies for Improving the U.S. Payment System”, and under the Board’s own policy, we do not see any basis for the Federal Reserve to offer a competing public-sector product.

We ask the Federal Reserve to continue to foster the safety and efficiency of the payment and settlement system by convening a study to understand what it can do to provide equitable access to the RTP Network. We suggest the Federal Reserve promote adoption targets for the agencies of the federal government to join the RTP Network. The government, one of the single largest users of electronic payments, is in a good position to help ensure adoption, which would set an example to the rest of the country.

We recommend the Federal Reserve work closely with all existing solutions to accomplish ubiquity in the faster payments ecosystem. By joining the U.S. Faster Payments Council, the Federal Reserve would support stakeholder innovation, education and ongoing collaboration.

Finally, U.S. Bank recommends that the Board proactively research possible ways it can support payment services, which may help achieve the FPTF goals of a safe, efficient, equitable, and ubiquitous faster payment system for the U.S. by 2020. We recognize that this common vision would not be possible without the Federal Reserve’s constructive role as the trusted and respected facilitator of the FPTF.

⁷ Board of Governors of the Federal Reserve Network, The Federal Reserve in the Payments Network, Issued 1984; Revised 1990 (hereafter “Payment Network Policy”), available at https://www.federalreserve.gov/paymentNetworks/pfs_frpaysys.htm.

⁸ Network Policy, supra n 6 at 5

We appreciate the opportunity to comment on the RFC. If you have any questions, or wish to discuss this letter, please do not hesitate to contact me at shailesh.kotwal@usbank.com.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Shailesh Kotwal", with a horizontal line underneath the name.

Shailesh Kotwal
Vice Chairman
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