

Via Electronic Submission – regs.comments@federalreserve.gov

December 13, 2018

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

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

Dear Ms. Misback,

Comerica Bank appreciates the opportunity to provide comments to the Board of Governors of the Federal Reserve System (“**Board**”) in response to its November 15, 2018, *Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments, Request for Comments* notice (“**FR Notice**”) about potential actions that the Board could take to promote ubiquitous, safe, fast, and efficient payments in the United States.¹

We believe that instead of expending its resources to develop its own faster payments capability, the Board would be better advised to continue its role as both advocate and regulator of real time payments, and thus ensure the safety and soundness of private sector efforts to effectively serve this emerging market need. With respect to the proposed liquidity management tool, we believe that such a tool might be useful in providing liquidity during weekends and holidays when this service is most needed. During normal operating hours, there are many alternative sources for liquidity, and accordingly this new capability may be less necessary during those times.

A service offering by the Reserve Banks for a real-time gross settlement of faster payments that is available on a 24/7 basis may actually hinder the development of faster payments in the United States.

A new real-time settlement service is not needed. A system for making faster payments in the United States already exists. It was launched in late 2017 by The Clearing House Payments Company (“**TCH**”) and is currently available to any financial institution in the United States who is willing to abide by the rules for that system. This system was designed from the ground up to serve the unique requirements for real-time payments in the United States, and it is currently operational. This network is called the *RTP Network*, and it is owned and operated by TCH. Comerica Bank is one of the owners of TCH, and, as both an owner and a U.S. financial institution dedicated to its customers,

¹ 83 FR 57351.

has a direct interest in the successful expansion of real time payments in this country.

The RTP Network was originally conceived in 2014 and arose from an effort by TCH and its owners to create a ubiquitous and safe real time payment system that would meet the emerging digital payments needs of consumers and businesses across the country. As the more particular criteria for such a system emerged from the deliberations of the Faster Payments Task Force, the design of the RTP Network adapted to ensure alignment with the principles and criteria produced by that collaborative effort. As a result, the RTP Network was built with Federal Reserve System encouragement, in accordance with the 36 criteria set forth by the Faster Payments Task Force², and in fact was independently assessed to be Very Effective in meeting 31 of those criteria and Effective in meeting the other 5.

We are concerned that the potential entry of the Federal Reserve System into the faster payments playing field, as outlined in the FR Notice, will further delay the broad-based adoption of real-time payments in the United States. Banks that otherwise might plan to participate in the RTP Network will now have a reason to delay their participation in this network, if only to be certain of the relative merits of the RTP Network vis-à-vis the pro forma offering by the Federal Reserve System. And thus, the goal of ubiquity of real-time payments in the United States by 2020 will be much harder, if not impossible, to achieve.

Further, it should be noted that value of the RTP Network is much more than the network itself, but rather that it is also designed to become a platform for continuous product innovation by banks, service providers, and other fintech organizations. Thus, to the extent that the potential entry of the Federal Reserve System into the market for real time payments diminishes the potential for these firms to realize near-term economic value from this system, then the benefits of real time payments to the economy will likely be elongated, thus further positioning the United States as a laggard in global economy's evolution toward faster and more secure payments. And given the fact that these investments are often quite substantial and take several months (if not years in some cases) to develop and deliver, it is not at all hard to imagine how the uncertainty of the potential entry of an alternative service provider into this marketplace might disincentivize many firms from making these types of commitments.

In a somewhat similar vein, all bank participants in real time payments will need to make back-end changes to their legacy systems in order to accommodate the requirements of this new capability. To the extent that these investments will need to be duplicated on account of the unique features of an alternative system – which would appear to be unavoidable in this case – then the cost, complexity, and risk of these investments will surely further delay the broad-based adoption of real time payments in this country.

In our view, the best path toward faster payments in the United States is not for the Board to propose a public-sector solution where a private sector service already exists. Rather, we believe the Board would be better advised to continue its role as both

² The RTP system received the highest rating (Exceed Expectations) on 31 of the 36 criteria developed by the Task Force. The system achieved the next highest rating (Meets Expectations) on the remaining 5.

advocate and regulator of real time payments to ensure that the marketplace fulfills the promise of faster payments as quickly and safely as possible. Given the challenges that all bank participants will have in adapting to this new capability – particularly the aforementioned task of modifying their internal and externally-facing systems – the potential entry of the Federal Reserve System into this marketplace will only complicate these initiatives. We believe it is far more important that the Federal Reserve System promote the creation of an environment that provides certainty, clarity, and safety for these efforts to occur so the benefits of real time payments can be realized by both banks and their customers in the most expeditious manner possible.

Last, we believe that the proposed interoperability of a new 24/7 real time gross settlement service with the real time net clearing and settlement service provided by the RTP Network will pose an extremely challenging issue for both TCH and the Federal Reserve System, and thus further delay the adoption of faster payments in the United States. Though we agree that full interoperability would be critical to realize the public benefit of the proposed new service, the functional, legal, and logistical challenges of such an undertaking would doubtless be enormous and costly, and would likely introduce rigidity into the marketplace for real time payments that would undermine its adaptability to an economy that is now evolving more quickly than ever, and which pace will only accelerate in the future. We are especially concerned that the need to ensure the ongoing interoperability of these two systems would also necessarily mandate the on-going functional parity of both systems, which would only serve to slow down the pace of innovation in this vital new capability over time.

From Comerica Bank's perspective, the private sector RTP Network aligns very well with the Federal Reserve System's guidance within the Board's 2015 *Strategies for Improving the U.S. Payment System* paper³. Alternative private and public-sector mechanisms for real time and near real time payments already exist with the card networks, new blockchain capabilities, and the ACH system (in which the Federal Reserve already participates), and thus under the Board's own policy, we do not see proper justification for the Federal Reserve System to offer a competing public-sector service at this time.

Regarding a liquidity management tool for weekend and holiday periods, this could be helpful in promoting 24/7 liquidity to support the RTP Network.

Currently, reflecting long-standing tradition that banking services are rendered only during "banking hours" and on a "banking day", the Federal Reserve has no mechanism to provide access to balances in Federal Reserve accounts on weekends or holidays. But with the ongoing march of technology and the globalization of commerce, this conception of banking hours and banking days has clearly changed. Indeed, this change was one of the more fundamental driving forces behind the creation of the RTP Network.

As a consequence, we believe it is entirely appropriate for the Federal Reserve to consider how it might provide access to these accounts and balances during non-traditional banking hours, thus freeing up "trapped liquidity" so that it can be used in a

³ Note: On September 6, 2017, the Board issued an additional paper in this regard, titled *Strategies for Improving U.S. Payment System, Federal Reserve Next Steps in the Payments Improvement Journey*.

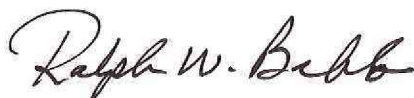
way that has not been available in the past. In our view, it is this foundational central bank function – being the liquidity provider to the banking system when liquidity is needed – that would make the greatest contribution to the proliferation of real time payments in the United States.

With respect to the RTP Network, the Federal Reserve System required that the RTP Network to develop a means of transferring available liquidity on the RTP ledger during off-hours and encourage RTP participants to make liquidity arrangements that could be triggered if such a need arose. Although this approach to managing liquidity on the RTP Network may suffice, it still relies on the existence of some level of excess liquidity in this network and a willingness among its participants to lend such liquidity. But on weekends and public holidays, these back-up lines would be unnecessary if trapped liquidity in a Federal Reserve Bank account could be liberated.

Fedwire is clearly fit for this purpose, but in order for it to meet this need, its hours of operation will need to be expanded to accommodate the needs of the participants in the RTP Network. We are concerned, however, that such an expansion of Fedwire's operating hours might open the door for the further evolution of Fedwire functionality beyond this limited purpose. Regional and community banks like Comerica Bank do not normally staff our operating functions on a 24 x 7 x 365-day basis as do some of our more globally-capable competitors, and thus we believe it would create an unnecessary and unanticipated burden on smaller institutions if the Federal Reserve System were to allow others to utilize these expanded hours to serve other commercial payments functions. Thus, if Fedwire does indeed become the mechanism by which this need is addressed, it should only be done so for the specific purpose to provide appropriate liquidity management for the new RTP Network.

We appreciate the opportunity to comment on the FR Notice. If you have any questions, or wish to discuss this letter, please do not hesitate to contact me.

Very truly yours,



Ralph W Babb
Chairman and CEO
Comerica Bank