BNY MELLON

December 14, 2018

BY ELECTRONIC SUBMISSION

Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551
Docket No. OP-1625

Re: Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments, Request for Comments

Dear Ms. Misback:

The Bank of New York Mellon Corporation ("**BNY Mellon**")[1] welcomes the opportunity to respond to the Request for Comment from the Board of Governors of the Federal Reserve System ("**Board**") on *Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments* ("**Request for Comment**"). [2]

The Request for Comment seeks input on two potential actions to promote ubiquitous, safe, and efficient faster payments in the United States: (1) a service for real-time gross settlement ("**RTGS**") of faster payments that is available to conduct settlement on a 24x7x365 basis, and (2) a liquidity management tool that would operate on a 24x7x365 basis to support services for real-time interbank settlement of faster payments ("**Liquidity Service**"), whether those services are provided by the private sector or the Reserve Banks.

BNY Mellon shares the Board's goal of ensuring "a safe and robust U.S. payment system, including a settlement infrastructure on which the private sector can provide innovative faster payment services that serve the broad public interest."[3] We are proud of our accomplishments to advance this goal: We participated in the Federal Reserve's Faster Payments Task Force and registered for the new Faster Payments Council. We were the first bank to join The Clearing

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1 BNY Mellon provides investment management and investment services that help institutions and individuals invest, conduct business, and transact in markets across the world. As of September 30, 2018, BNY Mellon had $34.5 trillion in assets under custody and/or administration and $1.8 trillion in assets under management.

2 Potential Federal Reserve Actions to Support Interbank Settlements of Faster Payments, Request for Comments, 83 Fed. Reg. 57351 (Nov. 15 2018).

3 *Id.*

House (TCH) Real-Time Payments (RTP®) network and to send the country's first real-time payment. We played a key role to establish industry standards and best practices both with TCH and with our peer banks to ensure the RTP® network is efficient, secure, reliable, and provides a platform for ubiquitous and equitable access for all banks within this country. We believe we can achieve ubiquitous, safe, and efficient faster payments in the United States through the private sector, with the support of a Liquidity Service to facilitate real-time interbank settlement of faster payments.

I. Liquidity Management Tool

BNY Mellon agrees that the Federal Reserve has and must play an important role to help facilitate faster payments within the United States, including the creation and expansion of a Liquidity Service to enable banks to move funds on a continuous 24x7x365 basis. BNY Mellon supports the Board's proposed efforts to create a Liquidity Service and believes that such services will help BNY Mellon and other banks in the industry achieve greater control of our liquidity to support new private sector systems such as RTP®. The tool would make private sector systems more attractive to a broader range of banks, particularly smaller U.S. banks.

A Liquidity Service would help achieve the goal of ubiquitous, nationwide access to safe and efficient faster payments by allowing banks to move liquidity continuously as needed to support 24x7x365 settlement. The RTP® network, for example, enables settlement on a 24x7x365 basis by operating out of a joint account at the Federal Reserve Bank of New York.[4] Banks must maintain sufficient liquidity by making contributions to the joint account. Currently, funds may be moved in and out of this joint account only during Federal Reserve operating hours. This creates periods of time during nights, weekends, and U.S. holidays where banks are unable to add liquidity to the joint account should their clients send more than is allocated to their position. Banks must actively forecast and hold surpluses within the joint account to manage these liquidity risks. Going forward, a Liquidity Service would allow banks to more efficiently mitigate the risk during nights, weekends, and U.S. holidays by enabling them to fund or drawdown from these joint accounts on a continuous or real-time basis, depending on how a bank would structure the management of this liquidity from an operational perspective.

BNY Mellon agrees that such service should be used, at least initially, only for the purpose of liquidity transfers between banks unless additional comment and considerations are requested and reviewed. Enhancing a commercial Fedwire service to a 24x7x365 basis may have benefits, but there may be extensive additional operational, servicing, and cost factors that should be considered.[5]

To further drive ubiquitous adoption, BNY Mellon recommends that the Federal Reserve consider re-visiting how they view balances held within joint accounts to potentially provide interest to the agent of such account and/or include these balances within the reserve

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4 *See, e.g.*, Request for Comment, 83 Fed. Reg. at 57362.

5 *See* Request for Comment, 83 Fed. Reg. at 57362.

requirements for participating banks. As the RTP® network, and other potential private sector networks that use this joint account structure, use these account types on a larger scale across the industry, these factors will be important for banks to consider when allocating capital to these accounts to pre-fund activity within those networks. We believe this will become especially important for smaller banks within the United States where capital may be less available and/or may become a barrier to entry.

II. Faster Payments Settlement Service

BNY Mellon believes that the RTP® network achieves the goals of a 24x7x365 faster payments settlement service. In 2015, the Federal Reserve issued *Strategies for Improving the U.S. Payments System*.[6] In it, the Federal Reserve stated that "the U.S. payment system is at a critical juncture" and called on "stakeholders to seize this opportunity and join together to improve the payment system."[7] The private sector took these recommendations seriously and acted expeditiously to develop the RTP® network.

TCH launched the RTP® network in 2017. The initial design, planning, and consideration for this new payments and settlement network were built with the Federal Reserve's vision for U.S. faster payments in mind. The Federal Reserve's goals of speed, security, efficiency, international inter-operability, and collaboration[8] were common goals of RTP®, which we believe the network successfully achieved.[9]

The RTP® network is a 24x7x365 settlement service built for scale, accessibility, and ubiquity. It is open to all U.S. depository institutions. It is projected to reach approximately 50 percent of all demand deposit accounts across the country by the end of 2018 and approximately 70 percent of all demand deposit accounts by the end of 2019. It is critical to take actions to provide the remaining accounts (including their respective banks and clients) with viable market options to connect to a system that provides equitable access for growth across the industry.

To further improve accessibility and efficiency, BNY Mellon is integrating corporate clients and other U.S. banks onto the RTP® network to allow those banks and their clients to use RTP® services. We actively support and provide banks with options to increase their speed to market and lower their investment costs. These services provide U.S. banks with faster access to the network at a lower cost and with less effort. We compete in this space with other technical

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6 Federal Reserve System, *Strategies for Improving the U.S. Payment System* (January 26, 2015). Available at https://fedpaymentsimprovement.org/wp-content/uploads/strategies-improving-us-payment-system.pdf.

7 *Id.* at 1.

8 *Id.* at 2.

9 Given that RTP® meets the goals laid out by the Federal Reserve, we believe it is unnecessary to develop a separate system at this time. If a separate system were to be developed, that new system may not be inter-operable with RTP®, may fragment the market, and slow progress already made by the private sector. To the extent the Federal Reserve moves forward with a 24x7x365 RTGS system, it is critical that such a system be inter-operable with existing private sector solutions. *See* Request for Comment 83 Fed. Reg. 57361.

integrators to the RTP® network, and we see first-hand the variety of options, tools, and companies from which banks can choose to connect to the RTP® network. This competition is healthy and provides client banks with a robust market to select services at competitive market rates. There are plans, development, and integration in place to continue onboarding and enabling banks through 2019 and beyond through direct connectivity, through banker's banks, and through technical integrators in a variety of models.

To further improve collaboration, TCH formed an RTP® Advisory Committee with senior executives from credit unions, community and mid-size banks, and trade associations. We continue to work with other banks, our clients, TCH, and the Federal Reserve to educate, enable, and drive adoption towards an efficient, secure, reliable, and ubiquitous payments system with equitable access for all banks in the United States.

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BNY Mellon appreciates this opportunity to respond to the Board's Request for Comment. We believe the development of a Liquidity Service would help achieve ubiquitous, nationwide access to safe and efficient faster payments. We welcome an opportunity to discuss and review these comments further with representatives from the Federal Reserve.

Respectfully Submitted,

Paul Camp
Chief Executive Officer, Treasury Services
BNY Mellon