



The Merchant Advisory Group (MAG) welcomes this opportunity from the Federal Reserve to comment on the proposal of the Reserve Banks implementing a 24x7x365 Real Time Gross Settlement (RTGS) Service in the United States. We applaud the Federal Reserve's effort to modernize the U.S. payments system by augmenting this country's archaic, fraud-prone payments infrastructure. In many other markets, real time payments are currently a reality. Real-time payments in the U.S. can deliver better payments services to consumers and foster a burgeoning industry, generating meaningful career opportunities for new payments professionals.

The MAG was founded in 2008 by a small visionary group of merchants in the payments field dedicated to driving positive change in payments through multi-stakeholder collaboration. MAG represents over 140 of the largest U.S. merchants, which account for over \$3.4 Trillion in annual sales at over 950,000 locations across the U.S. and online. Roughly \$2.7 Trillion of those sales and over 73 Billion card payments are electronic, and MAG members employ over 12.5 million associates.

Merchants from many different verticals including online retailers, insurance companies, small franchisees, big box merchants, grocery, travel, and fuel retailers are members of the MAG. Our vision is to provide an improved and equitable payments system for all stakeholders by educating, collaborating, innovating, and advocating throughout the system.

Since inception, the MAG has been involved with the Federal Reserve on its journey to improve the payments system. We appreciate the Federal Reserve's cross-industry approach in bringing all the parties who participate in the payments system together to identify the effectiveness criteria for faster payments. This approach has created a clear vision for a functioning faster payments system. To date, the private sector has yet to establish a system that incorporates these guiding principles.

The MAG welcomes greater involvement from the Federal Reserve to develop a RTGS service. The Federal Reserve's role as an operator will help ensure the vision of a multi-stakeholder, cross-industry effort. Currently the only semi-real time payments system to be implemented is a collaboration of just the largest banks, leveraging technology owned by one of the largest payment card networks. The MAG's view is that a robust, innovative payments system must not be controlled by a select few stakeholders who write and implement the rules that govern all players in the system. This scenario does not achieve the goal of enabling competition outlined in the Faster Payments Task Force's Faster Payments Effectiveness Criteria. It is also unclear if existing industry solutions provide the best risk management security to all stakeholders due to limited transparency regarding system rules and processes. Specifically, the in-market solution

uses a prefunded Federal Reserve account, as opposed to being a RTGS system. The use of prefunded accounts adds unneeded risk. It also allows for the possibility of accounts to be depleted, or even overdrawn, and therefore unable to transact. If the Federal Reserve implements a RTGS system, such risks would be mitigated.

The Federal Reserve is in a unique position to provide critical real-time payment services to the United States due to its depository function for banks across the nation. Due to its position, the Federal Reserve has the ability to implement a real time payment system at a speed and scale that would take decades for other providers to achieve. Industry stakeholders view the Federal Reserve as a fair and balanced provider that would transparently weigh the concerns of all stakeholders rather than the few stakeholders who may hold controlling interest in another service. Competition and open dialogue, as opposed to relying upon a platform provided by a single party, to provide such a critical service. Without adequate competition in the market, which the Federal Reserve can provide, merchants believe any monopolist's profit motivation would lead to supracompetitive pricing and reduce incentives to invest in ongoing innovations to best serve end-users. With its cost recovery model, the Federal Reserve will foster competition while serving as a mechanism to discipline pricing in a space that has been sorely lacking in such discipline. Additionally, the new payment infrastructure will produce societal benefits by improving efficiency, promoting competitiveness, and providing transparency.

The MAG supports Federal Reserve development of a 24x7x365 RTGS service as a first step in a globally competitive, healthy, and innovative payments system. We encourage the Federal Reserve to go further and create a directory that would allow customers to push payments to virtually any receiving point with limited risk and exposure to the underlying financial account. This alone would greatly improve the safety of the national payments infrastructure. The MAG would also like to see the Federal Reserve create a licensing process for stakeholders aligned to the risk of the new payment infrastructure. Licensing opportunities would allow more participants to innovate on the provided real-time payment services. When payments move to a real time transfer of funds, the counterparty risk that currently exists in the system could be nearly eliminated, allowing for different rules and processes for the new payment service. Enabling non-bank participation will result in enhanced competition, better products and services for consumers, greater societal benefit, and increased adoption and usage.

With the above as our overall view, please see our comments to select questions posed by the Board in the Federal Register Notice:

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

As merchants consider the U.S. development and adoption of real-time payments services, we believe the Federal Reserve's creation of a RTGS system is a critical catalyst. Merchants expect that a RTGS system would result in the lowest risk while providing immediate availability of funds to the receiver. We also encourage the Federal Reserve to develop a RTGS system that will eventually incorporate a new licensing process providing for a wider range of non-bank participants to have direct system accessibility, and reduce or eliminate counterparty risk.

24x7x365 real-time funds availability will help small businesses have better real-time access to capital in order to better manage their money. Moreover, it would provide companies who utilize a gig economy workforce the opportunity to provide faster access to funds, which may reduce gig economy workforce reliance on more expensive financial alternatives.

A settlement system that is available 24x7x365 will match the current environment in which consumers operate. Consumers expect that they can rely on the balance information in their online banking applications, but because many payments process slowly in today's environment, those applications do not always accurately reflect funds at their disposal. The current system of delayed settlement results in some transactions not clearing for several days after a purchase or refund occurs leading to customer confusion and tying up liquidity. Additional bank fees may be levied, falling disproportionately on low and middle income consumers.

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

The Monetary Control Act outlined criteria to decide when it should intervene in providing core financial infrastructure. Key components to that criteria are the following: whether the Federal Reserve has the ability to recapture the investment over a suitable time period; whether the Federal Reserve is in a unique position to provide the infrastructure; and whether existing core infrastructure provides overall societal benefits. Providing a 24X7X365 RTGS would meet the statutory criteria. The Federal Reserve's relationships with payments system stakeholders offer a unique ability to effectively provide these services.

Merchants closely involved with the Federal Reserve throughout this process share the overwhelming opinion that ubiquitous real time payments will not be a reality in the United State unless the Federal Reserve provides a 24x7x365 RTGS system. No other institution has the ability to send funds to every financial institution from the very smallest to the very largest. Even newly implemented solutions still rely on the Federal Reserve for settlement.

There are several societal benefits to an established Federal Reserve 24x7x365 RTGS service. It would free up cash that is caught in the system, mitigate counterparty risk, and drive more efficient settlement services for after-hours payments, including weekends and holidays. Putting these funds in the customers' and business end users' accounts would allow them more flexibility in reusing these funds. Faster access to the funds also improves predictability and budgeting capacity for all participants in the transaction. Having the Federal Reserve as a provider will offer redundancy in the movement of these funds, thus eliminating the risk of single points of failure. Finally, the Federal Reserve would serve as a catalyst for competition in real-time payment services. This new infrastructure would provide equal, unfettered access for banks of all sizes.

There is a clear distinction in the ownership and control of systems that dominate U.S. payments. History suggests when the Fed plays an operational role, as with the ACH, competition flourishes and prices to end users remain reasonable. By contrast, when the private sector is left alone to exclusively operate payment systems, as with payment cards,

competition is limited and prices remain unreasonably high. So high, in fact, that legislators felt the need to rein in those prices. Today, consumers and other payments stakeholders in the U.S. are being denied access to many of the benefits of faster payments enjoyed by their peers in other parts of the world. This situation can best be remedied by opening up access to essential payments infrastructure to all financial service providers instead of allowing it to be exclusively controlled by the biggest banks.

If the Reserve Banks develop a 24x7x365 RTGS settlement service, 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? What will be the source of demand? What types of transactions are most likely to generate demand for faster payments?

MAG believes it is highly likely the demand for faster payments will more than justify the development of a RTGS settlement service. To ensure RTGS reaches its full potential, the Federal Reserve should develop a settlement system that would allow for diverse and innovative non-bank stakeholders to access the system by directly connecting with the Federal Reserve in order to deliver more efficient payment services.

If all of these pieces are put into place, a more expansive RTGS system can become the primary means of moving value between parties in the United States. Not only will the system be used to fulfil the demand of instant person to person transactions, but it will also be utilized in digital payments and consumer-to-business transactions. Enabling consumers to receive and disburse funds in real time would reduce the financial burden on those who can least afford the additional costs of late fees or expedited payment fees. Critical payments such as utility bills or rent payments will be made on-demand, avoiding these costly fees.

Merchants expect that any payment with guaranteed funds could be completed by using an efficiently developed real time payment system.

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? Are the costs of adjustments and potential disruption outweighed by the benefits of creating a 24x7x365 RTGS settlement service? Why?

Merchants suggest that any requirements for adjustments to operate in a 24x7x365 settlement environment be carefully vetted with stakeholders. Implementation timetables should be realistic and allow for all payment system stakeholders to plan for and test new technology.

What is the ideal timeline for implementing a 24x7x365 RTGS settlement service? Would any potential timeline be too late from an industry adoption perspective? Would Federal Reserve action in faster payments 24x7x365 RTGS settlement service settlement hasten or inhibit financial services industry adoption of faster payment services? Please Explain.

The MAG recommends that the Federal Reserve move as soon as possible to help the industry understand the implications of any services it ultimately delivers. Transparency is critical while the Federal Reserve is building the new infrastructure. This will allow all stakeholders to plan and prepare for changes to their current systems. The MAG believes the Federal Reserve's involvement will bring expertise and reliable competition to real time payments. If the Federal Reserve announces plans to invest in bringing new payment capabilities to the market, the number of stakeholders willing to invest in the future will increase.

Merchants believe direct involvement of the Federal Reserve in the delivery of faster payments will serve as a catalyst to ensuring the Federal Reserve's goal of ubiquitous real-time payment services in the United States is reached by 2020. Although some industry stakeholders have begun developing real-time payment services in the United States, having a trusted source, such as the Federal Reserve, engage directly in RTGS services will provide confidence that efficient, secure, and accessible systems will be made available to all U.S. faster payment stakeholders.

Regarding auxiliary services or other service options, 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? How should such a database be provided to best facilitate nationwide adoption? Who should provide this service?

The Federal Reserve is in a unique position to be a provider of a proxy database. This could significantly improve the security of payments by removing the need for sharing financially sensitive data to complete payments. A push payment environment significantly reduces the need to have account numbers at multiple points in the payment system. The receiver only needs to have a way to identify the source of the funds, instead of a pull system in which one needs to be able to send an authorization request, typically relying upon sensitive account credentials, to a specific account. Merchants face considerable risks and expend significant resources to protect payment card information in their systems. We believe that moving to push payments and eliminating the need for sensitive credentials would be superior to in-market proprietary solutions, such as tokenization, that seek to mitigate these risks. Security in payments is critical in developing new payments infrastructure.

In order for ubiquity to be achieved all bank accounts in the U.S. need to have the ability to accept a payment. This can only be accomplished through the creation of a directory.

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?

Any real time transfer of funds should require advanced fraud protection and fail-safes to ensure consumers understand the permanency of the payment. The sender moving money within the system needs to be able to ensure the requested movements belong to the legitimate account user through verification processes. It is imperative that verification

includes consumer confirmation regarding the desire to send the payment to a specific end point, as well as strong user enrollment.

While these services can be developed by third party providers, the message that moves with the payment must have the ability to include the information needed to create this type of protection. It is also necessary this data be provided to the end points so risk modeling can be developed by all the participating parties. The Federal Reserve's direct involvement in RTGS will help ensure transparency in rules, processes, and technical messaging.

How critical is interoperability between RTGS services for faster payments to achieving ubiquity?

Unless consumers and businesses have confidence their payments will be received in real time by the desired endpoints, they will be slow to adopt to a real time payment system. For customers to risk making a real time payment, they must have a guarantee the payment will be delivered and the debt it was intended to satisfy is paid.

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?

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?

Having an advisory committee with representatives from all industry stakeholder segments should help the Federal Reserve eliminate unforeseen consequences in developing a 24x7x365 RTGS service. In order for this type of input to be beneficial, it should be done in an open and transparent process which gives all stakeholder segments the ability to express their opinions before critical decisions are made.

The MAG is grateful for the opportunity to express the views of its merchant members. Implementation of a 24x7x365 RTGS service by the Federal Reserve will help move the United States forward in updating an archaic payments system that no longer meets the demands of a 21st century digital economy. The MAG respectfully encourages the Federal Reserve also move forward with opening of this new infrastructure to non-bank innovators to use the 24x7x365 RTGS service. Merchants urge the Federal Reserve to create a directory in which all accounts have the ability to receive a payment in real time. It is our belief all of these actions must be taken by the Federal Reserve to ensure the greatest societal benefit and ensure the competitiveness of the United States. The MAG and our members look forward to continuing to work with you on real time gross settlement and other important issues related to the payment system.