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December 14, 2018

Via Email

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

Regs.comments@federalreserve.gov

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

Dear Ms. Misback,

M&T Bank¹ (**M&T**) appreciates the opportunity to respond to the request for comment from the Board of Governors of the Federal Reserve System (**Board** or **Federal Reserve**) regarding potential Federal Reserve services that may help achieve the goals of ubiquitous, nationwide access to safe and efficient faster payments. More specifically, the Board seeks comment on two potential services, a 24x7 real time gross settlement service and a liquidity management tool. While we strongly support the Board's intent, we have concerns about the potential impacts of the Board's proposed services.

Background

M&T participated in the Federal Reserve Faster Payments Task Force (**Task Force**), and has been supportive of the goals and criteria developed as part of that effort. We applaud the Federal Reserve for being a galvanizing force, bringing key parties together, and facilitating a shared vision for the industry.

Moreover, when the joint proposal between The Clearing House Payments Company, LLC (**TCH**) and FIS scored high on all Task Force evaluation criteria, and TCH moved forward with its solution, as a TCH member bank, M&T helped fund the design and development of the "Real Time Payment" (**RTP**) solution.

M&T monitored progress closely as the RTP system went live in 2017, and projections of ~50% deposit account enablement in the U.S. were projected for year-end 2018. While the largest banks in the U.S. are driving the majority of the enablement on the platform so far, it has been clear all along that the

¹ M&T Bank, Buffalo, NY is a subsidiary of M&T Bank Corporation, a bank holding company with total assets of approximately \$116 billion as of September 30, 2018.

road to full U.S. enablement would entail connecting to smaller institutions, and that TCH was fully committed to, and actively working on, that goal.

M&T is now implementing its own connection to RTP, and plans to roll out faster payments capabilities on the RTP rail throughout 2019 and 2020.

M&T has two primary concerns regarding the Board's proposed actions:

1. The possibility of a competing clearing and settlement scheme **introduces doubt and uncertainty into the market**, and will very likely have the unintended impact of delaying rollout of RTP into the market.
2. The Board's focusing purely on clearing and settlement **misses some key components of the RTP scheme** that are, in our opinion, more important than the immediate access to funds; namely, the additional **non-financial messaging that allows secure communication between payment parties**, immediate confirmations and requests for return of funds. These capabilities make real-time payments not only "faster," but "smarter," and open up areas of product innovation and customer benefit that can substantially improve our customers' experience and satisfaction with banking.

M&T's Recommendation

1. **Regarding Liquidity Solutions – M&T Supports Limited Federal Reserve Action**
 - a. The TCH solution does have some limitations, driven primarily by the lack of true 24x7x365 settlement capabilities. While each RTP participant's position will be updated in real-time, true access to the funds relies on the Federal Reserve's business hours. The Federal Reserve may have a role to play in addressing this gap. However, at this point, we do not think this is a high priority.
 - b. **The Federal Reserve should consider extending Fedwire trading hours – eventually to 24x7x365.** This will allow RTP participants to fund (or draw down) their positions with RTP at any time, and would avoid having TCH develop liquidity solutions within the platform as a workaround. As more traffic and volatility hits the RTP network, this will allow banks to respond quickly and maintain appropriate funding positions.
2. **Regarding Clearing and Settlement – M&T does not believe that a Federal Reserve-operated solution will bring additional value to the market**
 - a. The TCH solution is designed to be fair, equitable and accessible to all financial institutions, with flat pricing and fair access. We understand there may be theoretical value in introducing a competitive platform, but we do not feel there is a market deficiency, and do not see a need for, or benefit of, a Federal Reserve-operated solution.
 - b. However, if the Federal Reserve does proceed with such a solution, it should publicly commit that any competing or parallel network would be **interoperable** with the TCH

solution. Commitment to interoperability is critical in order not to discourage adoption and rollout of the RTP solution.

- c. This interoperability must **include all financial and non-financial messages**.
- d. The Federal Reserve would further need to ensure that **full, real-time, clearing and settlement would interoperate** across platforms as well.
- e. The complexities of interoperability cannot be overstated, and may prove to be so difficult that the costs outweigh the benefits. This analysis needs to be progressed, in close cooperation with TCH, before the Federal Reserve commits to any course of action.

M&T appreciates the opportunity to comment, and reiterates that it applauds and shares the Federal Reserve's commitment to ubiquitous faster payments in the United States. We believe that the TCH RTP solution provides a strong and innovative foundation that champions that vision, and want to ensure that any future Federal Reserve action is complementary and additive, and does not slow or impede the considerable progress and momentum that has been realized with respect to the TCH RTP solution to-date.

Sincerely,

Chris Tolomeo
Senior Vice President