



December 14, 2018

*Via Electronic Submission*

Ann Misback  
Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> 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

Dear Ms. Misback,

PNC Bank, National Association (“PNC”) appreciates the opportunity to provide comments to the Board of Governors of the Federal Reserve System (“Board”) in response to its request for comment (“RFC”) about potential actions that the Federal Reserve could take to promote ubiquitous, safe, fast and efficient payments in the United States.<sup>1</sup> PNC has participated actively in the Faster Payments Task Force (“FPTF”) sponsored by the Federal Reserve, and has worked collaboratively with the payments industry and the Board in the collective effort to develop a ubiquitous, nationwide payment system that would provide faster payments on a real-time basis. As a member of The Clearing House (“TCH”), and an early adopter of TCH’s Real Time Payment<sup>®</sup> (“RTP”) System, PNC is proud to have worked with other stakeholders to stand-up the fastest and most innovative new payment network in the United States in over 40 years.

In the RFC, the Board requested input on two specific concepts. The first is a liquidity management tool (“LMT”), which could support faster payments in the U.S. by providing banks a method to transfer funds between Federal Reserve accounts outside of current Fedwire business hours. The second involves a new Real Time Gross Settlement (“RTGS”) service that would be operated by the Reserve Banks.

PNC supports efforts by the Federal Reserve to develop an LMT that would allow depository institutions to transfer funds between their Federal Reserve accounts during extended hours, including during weekends and holidays. We believe developing an LMT would be an appropriate way for the Federal Reserve to fulfil its mission and support faster payments as the private sector works toward the FPTF’s 2020 goal of ubiquitous receipt of faster payments in the

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<sup>1</sup> *Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments*, 83 Fed. Reg. 57351 (Nov. 15, 2018).

U.S. Specifically, the Federal Reserve should consider expanding Fedwire Funds Operating hours to better allow for funds transfers throughout the day, including weekends and holidays.

For the reasons described below, PNC believes that it would be premature for the Federal Reserve to pursue development or operation of an RTGS service at this time. The private sector is currently on a trajectory to deliver on the goal of a near-ubiquitous faster U.S. payment system by the 2020 target established by the FPTF and we are concerned that Federal Reserve actions towards development of an RTGS system would slow, rather than speed, the prompt and ubiquitous availability of real-time payment options for consumers, businesses, and municipalities in the United States.

**I. A liquidity management tool for weekend days and holidays could help faster payments develop in the U.S.**

Currently, the Federal Reserve has no mechanism to provide depository institutions access to their balances in a Federal Reserve account on a weekend or a holiday, because of the longstanding tradition that banking services are rendered only during “banking hours” and on a “banking day.” During these times, when the Fedwire Funds Service and the National Settlement Service are closed, there is no liquidity in central bank funds. The concept of banking hours and banking days has changed as technology and commerce have evolved, and the change in thinking about when a critical banking service like payments should be operational is one of the driving forces behind the development of faster payments in the United States.

Private sector entities cannot provide a liquidity management solution for central bank funds. Only the Federal Reserve is able to operate an LMT that would allow the transfer of central bank funds outside of traditional banking days and hours. Providing additional operating times for Fedwire is the most efficient solution for this goal and represents a sensible next step as the U.S. moves toward, and beyond, its 2020 goal of faster payments.

Operating Fedwire during extended LMT hours would reduce the risks inherent to participants in any real-time payment system that the private sector may develop, including the liquidity risk inherent to prefunded payment systems and the credit risk inherent with deferred net settlement systems. Reducing these risks would support the development and growth of private sector real-time payment initiatives to better serve consumers, corporates, and the financial system.

As noted in the RFC, one model for a real-time system involves the establishment of a prefunded position within the system for each participant. In such a system, the settlement of payments are effectuated in real time through the debiting and crediting of positions the system maintains for each participant. One benefit of the prefunded model is that it enables the clearing and settlement of payments at any time of the day or night on each and every day of the year, but this requires participants to prospectively manage their prefunded positions in advance of weekends and holidays, when the Fedwire service is not operating. If participants under-fund their real-time prefunded positions, liquidity could become “trapped” in a participant’s account at the Federal Reserve outside of traditional banking days, and those funds would not be able to be transferred to increase a participant’s prefunded position as needed. An LMT that provides extended operating times for Fedwire would significantly reduce this kind of liquidity risk, and,

thus, significantly decrease the likelihood that bank customers would experience an interruption in their ability to send a real-time payment through a prefunded system.

Alternatively, a real-time payment system could require immediate access to funds by the customers of a receiving institution, with the expectation that inter-bank settlement will occur at some future time, likely to be processed in batches. Until the time of batch settlement, a deferred net settlement system exposes counterparty banks to a certain amount of credit risk. In the event that settlement was reliant on access to central bank funds, creating extended LMT hours for Fedwire would significantly reduce the credit risk of each participant in a deferred net settlement system and benefit systemic stability overall. India's National Electronic Funds Transfer system is an example of one such deferred net settlement system, which has hourly settlement windows throughout the day.

Obviously, any significant changes in the operation of a systemically important system such as Fedwire would require careful study and consultation with all stakeholders. PNC would welcome the chance to discuss with the Federal Reserve and other stakeholders the optimal design of Fedwire services as a liquidity management tool during these extended operating hours. Indeed, for the limited purpose of providing an LMT service to support the development of faster payments, it may not even be necessary for the Federal Reserve to keep the full functionality of the Fedwire service open during extended LMT operating hours.

## **II. Federal Reserve development of an RTGS is unnecessary and would delay the arrival of ubiquitous faster payments in the U.S.**

At best, it is premature for the Federal Reserve to pursue the creation and operation of an RTGS system. The Federal Reserve's policy regarding payment systems sets forth the conditions that must be present before the Federal Reserve would propose a new service or service enhancement.<sup>2</sup> In particular, the policy states that a new payments product will not be offered unless the private sector "cannot be expected to provide [the product] with reasonable effectiveness, scope, and equity." We respectfully suggest that such a decision should not be made prior to the 2020 FPTF deadline, at the earliest.

As the Federal Reserve is aware, TCH's RTP System was in the planning stages in 2014, with the intention of creating a ubiquitous and safe real-time payment system. As the deliberations of the FPTF evolved, the design of the RTP System adapted to be aligned with the FPTF principles and criteria. As a result, the RTP System has been built, with Federal Reserve encouragement, in accordance with the 36 criteria set forth by the FPTF and the guiding principles of the Bureau of Consumer Financial Protection.

The RTP System was launched in 2017 and is now actively clearing and settling domestic faster payments. The RTP System is open to depository institutions of all sizes across the United States on equitable terms. It has a flat pricing schedule that is the same for all participants,

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<sup>2</sup> Board of Governors of the Federal Reserve System, "The Federal Reserve in the Payments System," Issued 1984; revised 1990. *Available at* [https://www.federalreserve.gov/paymentsystems/pfs\\_frpaysys.htm](https://www.federalreserve.gov/paymentsystems/pfs_frpaysys.htm).

regardless of the participant's size, and there are no discounts for volume commitments, or monthly minimum transfers for participating institutions. The RTP System is currently in a "start-up phase" as additional financial institutions incorporate RTP into their core payments systems, adjust their policies and procedures, and train their staff to support offering the product to their customers. Nearly half of the U.S. domestic deposit accounts are estimated to be able to receive RTP payments by the end of 2018. TCH expects significant additional adoption in 2019, as more payment services vendors incorporate RTP functionality into their platforms, and expects the system to achieve the FPTF's goal of near ubiquity by the 2020 target date. Additionally, TCH is actively working to incorporate tokenization to the RTP System to enhance customer fraud protection. Accordingly, it appears that the private sector, funded by private capital, will achieve the goals set forth by the FPTF and the conditions for public sector intervention in the market under the Federal Reserve's own payments policy have not been met.

Unfortunately, the RFC itself has created ambiguity regarding the Federal Reserve's future plans to enter the faster payments playing field. In our view, this ambiguity, and the timing of the RFC, has complicated and may delay the arrival of faster payments ubiquity in the U.S. This ambiguity, and the possibility that the Federal Reserve may offer an RTGS service, may cause some financial institutions to delay introduction of real-time payment solutions for their customers as they await additional details on whether, or how, the Federal Reserve might enter this field.

It took more than three years of work and significant financial investment to develop the RTP System to its current operational status. It likely would take the Federal Reserve at least the same amount of time, effort, and money to develop and operationalize its own RTGS, meaning that it certainly would not be operational or ubiquitous by the FPTF goal of 2020. Moreover, to the extent financial institutions delay introduction of real-time payments pending the introduction of a Federal Reserve-operated RTGS, Federal Reserve development of its own RTGS would slow the availability of real-time payments solutions to consumers, businesses and municipalities.

Full development of a Federal Reserve-operated RTGS could well take even longer than development of the RTP System. This is because full interoperability between the two systems (the RTP System and any Federal Reserve-operated RTGS) would be necessary to avoid imposing unnecessary costs and inefficiencies on financial institutions and their customers. The presence of dueling, non-interoperable faster payments systems would require market participants to choose one network over the other (potentially ruining the goal of ubiquity) or require market participants to bear the higher costs of integrating and supporting two siloed systems.

Developing a Federal Reserve-operated RTGS that would be fully interoperable with existing private sector solutions, however, would be highly challenging. It would require the Federal Reserve's RTGS service and TCH's RTP System (or other private sector solution) to be able to exchange messages and payments while avoiding double settlement. It is not even clear that such interoperability would be possible for faster payment systems in which settlement and clearing are simultaneous and functionally inseparable. True interoperability would also have to extend beyond the payments themselves to include requests for payment and other non-payment messages, and would require maintaining on-going functional parity as both systems evolve and

innovate over time. This would be exceptionally difficult as between a private sector entity and a publicly operated system. Moreover, as private sector faster payments systems incorporate tokenization of user account information to reduce fraud risks, the Federal Reserve would be faced with building their own token vault service in addition to a real-time payment service or ensuring that their RTGS would remain interoperable with a private sector token solution. And, while interoperability would be absolutely necessary between a Federal Reserve-sponsored RTGS system and the TCH RTP System, it is not clear that the marginal benefit to the financial system of having two systems would be any greater than if there were one ubiquitous faster payments system.

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We appreciate the opportunity to offer these comments on potential Federal Reserve actions to support interbank settlement of faster payments. If you have any questions, or wish to discuss this letter, please do not hesitate to contact the undersigned.

Respectfully submitted

A handwritten signature in black ink, appearing to read "J. Christopher Ward". The signature is written in a cursive, slightly stylized font.

J. Christopher Ward  
Executive Vice President  
Head of Product, Treasury Management