



December 14, 2018

By Electronic Delivery to regs.comments@federalreserve.gov

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

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

Ladies and Gentlemen:

The Board of Governors of the Federal Reserve System, (“Board”) is seeking views on two potential actions (the “Request”): 1) the development of a service for real-time interbank settlement of faster payments 24 hours a day, seven days a week, 365 days a year (24x7x365) (“RTGS” proposal); and 2) the creation of a liquidity management tool that would enable transfers between Federal Reserve accounts on a 24x7x365 basis to support services for real-time interbank settlement of faster payments, regardless of whether those services are provided by the private sector or the Federal Reserve Banks (“LMT” proposal). Visa recognizes the key role that the Federal Reserve has played in developing safer and faster payments in the United States, both as a payment system operator and innovator, and internationally as a thought leader. The importance of this role in fostering the safety and efficiency of economic transactions and our economy itself cannot be overstated.

The Board’s request for comment on faster payments issues carries on this tradition and raises important questions as to the future evolution of payments in the United States. Shortening the time to complete transactions reduces the need to maintain idle cash, reduces counterparty credit risk and may reduce other risks. While some consider the ability to effect T+0 payment and settlement a panacea, pursuit could be arduous and requires an understanding of the tangible benefits to be achieved and appreciation of the costs of achieving those benefits. As implied in the Request for Comment, appropriate consideration of public and private sector investment also will be necessary to achieve the desired results in the most efficient manner.

As the operator of an international payment system focused on transactions between end users, Visa generally supports efforts by the Federal Reserve to improve its interbank settlement service through enhanced liquidity offerings. Visa has developed capabilities to support a number of real-time use cases for our clients. Therefore, we will

focus our comments on the RTGS proposal, where Visa believes that its experiences in offering payment services in segments of the market envisioned for the RTGS service may be useful to the Board. In commenting on the RTGS proposal we will focus on considerations relating to:

1. Driving ubiquity in real-time payments
2. Developing a robust rules framework for real-time payments
3. Ensuring the Federal Reserve's efforts increase the efficiency of the payments ecosystem
4. The auxiliary services identified in the Request

1. Driving ubiquity of real-time payments

Currently, the private sector is innovating more convenient and efficient payments using a variety of settlement options including ACH, card networks, and private sector real-time payment systems. This innovation is driving faster and more efficient payment options for many use cases and customer types. Ubiquitous access to faster payments, meaning faster payments connectivity for every bank¹ enabling them to both send and receive faster payments, is an important goal to further drive efficiency. In addition, ubiquitous availability of faster payments offerings to end users requires development of products and services on top of this connectivity. Achieving ubiquity at these two levels will require overcoming a number of obstacles, whose difficulty will depend in part on the chosen approach.

Observed challenges to ubiquitous real-time settlement adoption, both in the United States to date and in many global markets that have embarked upon faster payments initiatives, include: lack of a clear investment case for involved parties; fragmentation in the real-time payment ecosystem; liquidity challenges for smaller banks; and low incremental consumer value vs. established payment methods. There are multiple ways to address these challenges that should be evaluated, including building an LMT and / or an RTGS system and private sector solutions. Visa suspects that the task of implementing a new real-time payments platform will require significant time and resources from both the Federal Reserve and any ecosystem participants (including processors, banks, end users, and all other participants in the real time payments value chain), and should take into consideration private sector technology and expertise. Therefore, the Federal Reserve should evaluate how it can best support real-time ubiquity, while meeting cost recovery requirements (per the Monetary Control Act and the Federal Reserve's Guidelines for the Provision of Financial Services Policy).

The breadth of the US financial services ecosystem makes broad connectivity a particular challenge. Real-time payment systems in other countries have ultimately, and to varying degrees of success, pursued connectivity through a mix of direct and indirect connections through other banks or providers, even when there is a more concentrated

¹ For convenience, except where the context requires greater specificity, this comment generally uses the term bank as a short hand for reference to member banks and depository institutions.

bank ecosystem than is present in the US. The Federal Reserve could consider a similar approach to maximize access to faster payments, particularly for those small to medium sized banks for which the investment required to connect to and operationalize real-time payments on their own is cost prohibitive. Ubiquity could potentially be supported in partnership with existing private sector connections. For example, Visa Direct, which allows for real-time authorization, clearing, and funds availability across all US institutions, is currently supporting connections between large and small banks for most peer-to-peer payment solutions in the US.

2. Developing a robust rules framework for real-time payments

Driving ubiquity across banks will further require a robust rules framework for transactions between different banks and different payments systems. As the Request recognizes, rules, agreements and public law are key components to a functioning payments system; a payment network must give meaning to the content of payment messages, establish the responsibilities of the parties to the transaction, and assign risks. As communication channels, market practices, and fraud techniques evolve, payment rules need to continue to evolve as well.

A further challenge is that the proposed Federal Reserve real-time payment environment introduces new questions and challenges around applicable legal frameworks. For example, payments that flow through the proposed platform will necessarily include both transactions ordinarily subject to the EFTA and Regulation E, as well as those subject to Article 4A of the Uniform Commercial Code (“Article 4A”) and Regulation J. Applying different legal frameworks to distinct portions of a network’s payment flow would be complex in practice, and the complexity would further increase if many different private payment services use the real-time payment platform. It would be necessary for those rules to be sufficiently narrow and flexible to avoid constraining innovation, but precise enough to establish the rights between participants.

The complexity involved in answering these questions and developing a robust rules framework is significant - for example, the drafting of Article 4A for wire transfers was a multiyear and contentious process, even though wire transfer practices were well established and relatively stable. Complexity increases when payments originate and terminate in different services. Though this is the current practice for ACH transactions, those transactions rely on a single set of rules established by a third party rule writer that are adopted by the Federal Reserve for ACH transactions processed by the Federal Reserve. While that system has worked for some time for the ACH service, it would likely need to be redeveloped for a real-time platform environment.

3. Ensuring the Federal Reserve’s efforts increase the efficiency of the payments ecosystem

The Federal Reserve can take steps to pursue ubiquitous real-time payments in the US in a manner that adds efficiency to the payments ecosystem and avoids unintentional inefficiencies. International real-time payments efforts have shown that optimizing

platforms for use cases that will generate the most demand is critical to avoiding duplicative investment and supporting banks' ability to recuperate costs. Real-time payments infrastructure itself should be optimized for particular use cases – for example large ticket sizes. Real-time payments have struggled to gain traction in other countries where use cases are already efficiently addressed by other means or solutions, making it difficult for banks to recoup the high upfront investment required to connect to new infrastructure and handle new or different rules, processes and procedures. In the US, while certain use cases, such as immediate payroll availability for consumers, may benefit from the efficiency of instant settlement and generate demand for real-time payments, other use cases are better suited for existing platforms and are not likely to migrate to faster payments in the foreseeable future.

To increase the efficiency of payment systems, the Federal Reserve must also consider past and future investments across the entire ecosystem, that is, from end to end. Financial institutions of all sizes will need to shoulder the costs of connecting to new infrastructure and developing new processes such as real-time payment customer care and disputes. For smaller and medium sized institutions, this cost could be significant or even prohibitive, as real-time payments efforts in other markets have experienced. Any decision to build new real-time infrastructure should be done in a way that leverages existing infrastructure and expertise in faster payments, risk, fraud, end point solutions, etc. Adapting technology developed for other payment platforms into the real-time payments stack can reduce overall time to market, cost, and impact to the ecosystem, while continuing to motivate the private sector to invest in innovation.

Development of a robust Federal Reserve real-time payments platform will require close and continued cooperation and interaction with relevant private sector services. While committees, advisors, groups and surveys can assist this process, understanding of payment trends would require that the Federal Reserve become more involved in end user payments—an involvement that may be an expansion of the Federal Reserve's historic role in payments.

4. Auxiliary services

The Federal Reserve and banks will likely need to access value-added and overlay services to optimize a new platform for use cases likely to drive the most demand. Medium and smaller banks in particular may lack the resources to develop customer-friendly, efficient and secure tools for consumers to conduct payments. While bank websites and mobile phone applications are current examples of such tools, these are far from exhaustive of current tools, let alone potential future tools.

The Request states that the RTGS service would rely on banks and other parties, such as other providers of payment services, to develop end-user services and the full suite of auxiliary services such as a proxy database or directory that allows banks to route end-user payments, enhance fraud monitoring capabilities, and transaction limits to manage risk. This is consistent with experiences in other countries, where real-time payment platforms have typically relied on the private sector to provide the auxiliary

services that optimize the platform for intended use cases. If the Federal Reserve chooses to build an RTGS service, it should similarly take advantage of private sector technology and expertise – in connectivity, fraud/risk tools, alias directories, etc. – by using third parties as service providers to the Federal Reserve for core services, while allowing banks the choice to tap into private sector innovation to augment these services.

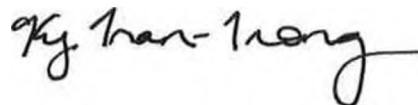
As an example, techniques for reducing payment fraud are continually evolving. These techniques are especially critical as part of a real-time payments infrastructure, given the inherent consumer protection issues of instantly settled, irrevocable payments. While the Request mentions the potential for a fraud monitoring service, Visa believes that monitoring is only one small piece of fraud prevention. Payment networks have invested heavily in both network-centric and end point-centric tools to actively and dynamically prevent fraud, driving significant innovation and progress in the fight against fraud. Visa believes that the choice of fraud prevention services and providers will be a critical component of the service and that the service provider should have a demonstrated track record of dealing with payment fraud.

The creation of a directory to route end user payments for an end to end service raises similar challenges. Such a directory would need to be updated continually by adding new addresses and deleting addresses that are no longer valid. The maintenance of the directory would also raise privacy issues, including issues as to the applicability of federal and state privacy and data security laws. The private sector has invested in and developed alias directories that should be leveraged. Standards from the Federal Reserve addressing how these directories could interoperate could be beneficial. Other auxiliary services would raise additional challenges that may be new to the Federal Reserve but more routine for the private sector.

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We would be happy to follow up with you on any aspects of this letter, with further supporting information or submissions. If you have any questions concerning the issues raised in this letter do not hesitate to contact me at ktrantr@visa.com or (202) 419-4109.

Sincerely,



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