



Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments

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VIA Electronic Submission

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Board of Governors of the Federal Reserve System

1. Is RTGS the appropriate strategic foundation for interbank settlement of faster payments? Why or why not?

RTGS is the appropriate strategic foundation for interbank settlement of faster payments because it supports the trust, legal and settlement finality, and access control that payments across the ecosystem require. This is applicable for retail, B2B, interbank payments and end-users / customers.

2. Should the Reserve Banks develop a 24x7x365 RTGS settlement service? Why or why not?

We agree that the Reserve Banks should develop a 24x7x365 settlement service to reduce settlement risk, latency, and cost in the system today. With current operating hours, financial obligations remain unsettled until RTGS payment windows open, creating uncertainty as to whether a payment obligation has been fulfilled. The development of a 24x7x365 approach will require business contracts and settlement arrangements between banks to include structured unwinding procedures in the event that a payment transaction fails. The Federal Reserve must ensure that the design of this framework provides clear and certain final settlement of payments, transfers and other obligations in order to reduce the systemic risk for other banks not fulfilling their financial obligations to other interbank payment systems or customers.

3. If the Reserve Banks develop a 24x7x365 RTGS settlement service,

A. 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 sources of demand? What types of transactions are most likely to generate demand for faster payments?

- B. 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 adjustment and potential disruption outweighed by the benefits of creating a 24x7x365 RTGS settlement service? Why or why not?**

Conversion to a 24x7x365 RTGS settlement service would require additional staffing outside the current operating hours, thus marginally increasing costs for participating financial institutions in the short term. However, any short-term cost increases will be more than offset by long term cost reductions as the market transitions to new digital solutions for settlement and related payment activities, and is able to more effectively manage settlement risk, thereby reducing associated capital charges.

- C. 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 payment settlement hasten or inhibit financial services industry adoption of faster payment services? Please explain.**

Various stakeholders across the financial industry are reluctant to invest and adopt innovative technologies, which would benefit customers, when there remains a lack of clarity as to which standards, processes, or technologies will ultimately be embraced by central banks. We believe in the importance of continuous engagement with all stakeholders to ensure all views and issues are considered – in a timely manner – to enable the adoption of this proposition and to move forward. The faster the Federal Reserve is willing to move on this front, the better to spur innovation in the private sector.

- D. What adjustments (for example, accounting, operations, and agreements) would banks and bank customers be required to make under a seven-day accounting regime where Reserve Banks record and report end-of-day balances for each calendar day during which payment activity occurs, including weekends and holidays? What time frame would be required to these changes? Would banks want the option to defer receipt of such information for nonbusiness days to the next business day? If necessary changes by banks represent a significant constraint to timely adoption of seven-day accounting for a 24x7x365 RTGS settlement service, are there alternative accounting or operational solutions that banks could implement?**

In a 24x7x365 system, commercial banks will be required to make and settle payments in central bank money between themselves either as a direct or indirect participant with settlement finality around the clock. To accomplish this, banking operation teams would be required to ensure payments are processed in line with their participation and monitor liquidity throughout

the 24-hour day. Additionally, amendments to current participation agreements would be necessary, in particular with regard to interbank agreements and agreements between banks and their customers.

The definition of “end-of-day” would need to be clarified, and a definitive end-of-day cut-off would need to be determined (midnight being an obvious answer prima facie). The provision of interest and definitions of overnight lending and borrowing would be another discussion point.

To help banks support Reserve Bank reporting requirements, Reserve Banks would need to set clear guidelines of what reporting data will be required from financial institutions and the frequency of such data. For example, data may be interpreted to mean transaction volumes and values on a month-to-month basis, for each individual financial institution or could suggest more granular detail such as payment transactions between bank A and bank B such as account name, account sort code and account number. In any case, adherence to national and international regulation must be considered, e.g. data protection laws. In general, providing early indications for the rules or the criteria of participation, the data and the frequency is important to allow direct or indirect participants sufficient time to embed new processes or procedures. As noted above, industry engagement will be valuable in the process.

E. What incremental operational burden would banks face if a 24x7x365 RTGS settlement service were designed using accounts separate from banks’ master accounts? How would the treatment of balances in separate accounts (for example, ability to earn interest and satisfy reserve balance requirements) affect demand for faster payment settlement?

Separating overnight accounts from master accounts would be a good way to operationally manage payments and settlement throughout the windows. End of working day operational structures could remain largely intact.

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?

- i. Any proxy database or directory that facilitates nationwide adoption and contains personal information identifying the recipient must be

carefully considered in line with national and international data protection laws. As we move into a more digital economy, individuals share more personal data; therefore, further consideration must also be given to protecting the data from fraudsters claiming to be the recipient. Finally, mechanisms / procedures for how to deal with changes to personal data will need exploration in the financial industry because any personal data not kept up to date in the underlying database may cause delays in a) checking the identity of the person again and b) payment transaction. We do not express a view on who should provide this service other than the provider.

ii. 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?

The Federal Reserve must receive assurances from direct and indirect participants that each has in place adequate fraud prevention tools to monitor and detect crime and/or terrorist financing in accordance to anti-money laundering regulations. We do not express a particular view on the type of fraudulent tools, how these tools should be provided, and who should provide it.

iii. How important are these auxiliary services for adoption of faster payment settlement services by the financial services industry? How important are other service options such as transaction limits for risk management and offsetting mechanisms to conserve liquidity? Are there other auxiliary services or service options that are needed for the settlement service to be adopted?

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

As it relates to integrations between RTGS services in separate countries, interoperability between RTGS services is not critical to achieving sufficient adoption. However, interoperability is often poorly defined and understood, and more work is required to define sufficient and prudent interoperability levels.

G. 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?

A 24x7x365 RTGS settlement service could be used for interbank settlement of retail, inter-company, or interbank payments. Its use should be scoped to

include all of these, particularly as the opportunities for reduction in settlement risk, cost, and time are largest outside retail payments.

H. 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?

Yes, forming joint Federal Reserve and industry teams would be an effective and important way to identify approaches for implementation of a 24x7x365 RTGS settlement service. This would be particularly useful in those areas where collaboration and interaction between the Federal Reserve and the private sector are required: liquidity management, risk operations, accounting processes, and collateral management.

4. Should the Federal Reserve develop 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, whether those services are provided by the private sector or the Reserve Banks? Why or why not?

Yes, the Federal Reserve should develop a liquidity management tool that would enable transfers between Federal Reserve accounts on a 24x7x365 basis. Intraday and overnight liquidity management functions and payment management are the primary users and influencers of RTGS services. Allowing the private sector (and perhaps the public sector) to loan liquidity on a shorter-term basis than is possible today would increase the velocity of money, reduce the tendencies for liquidity pool formation, increase efficiency between markets, and give all operators and regulators a better view of real time risks and exposures.

5. If the Reserve Banks develop a liquidity management tool,

a. What type of tool would be preferable and why?

- i. A tool that requires a bank to originate a transfer from one account to another**
- ii. A tool that allows an agent to originate a transfer on behalf of one or more banks**
- iii. A tool that allows an automatic transfer of balances (or “sweep”) based on pre- established thresholds and limits**
- iv. A combination of the above**
- v. An alternative approach**

(A combination of i-iii) would be preferable to support liquidity management in markets with different requirements. Some markets may use manual triggers, actions by agents, or automated processes. Allowing markets to choose their approach will support market-specific settlement processes and increase adoption.



b. Would a liquidity management tool need to be available 24x7x365, or alternatively, during certain defined hours on weekends and holidays? During what hours should a liquidity management tool be available?

A liquidity management tool would be most useful if available 24x7x365. It is during normal market hours that liquidity lending is in highest demand, but the added marginal benefits of overnight, weekend, and holiday availability would be easily supported.

c. Could a liquidity management tool be used for purposes other than to support real-time settlement of retail faster payments? If so, for what other purposes could the tool be used? Should its use be restricted and, if so, how?

A liquidity management tool could be used to support margin calls, collateral loans, and MMF operations. Its use should not be restricted by use of funds.

6. Should a 24x7x365 RTGS settlement service and liquidity management tool be developed in tandem or should the Federal Reserve pursue only one, or neither, of these initiatives? Why?

These should be pursued in tandem, as the tools address different problems. 24x7x365 settlement addresses the need to make payments in central bank money more flexibly. Liquidity management allows the market to more efficiently move liquidity for reasons that include both payments and other operations noted above.

7. If the Federal Reserve pursues one or both of these actions, do they help achieve ubiquitous, nationwide access to safe and efficient faster payments in the long run? If so, which of the potential actions, or both, and in what ways?

A 24x7x365 settlement service best helps achieve ubiquitous, nationwide access to safe and efficient faster payments in the long run, as it will allow all levels of actor to make payments: retail, corporate, commercial bank, and clearing bank.

8. What other approaches, not explicitly considered in this notice, might help achieve the broader goals of ubiquitous, nationwide access to faster payments in the United States?

Supporting central bank digital currency issued on a blockchain platform will also help achieve the goals of ubiquitous access to faster payments in the United States. The ability to move value on a blockchain platform will reduce middlemen and cost in the payments value chain, as well as grant regulators a better view of liquidity pools and exposures.

9. Beyond the provision of payment and settlement services, are there other actions, under its existing authority, the Federal Reserve should consider that might help its broader goals with respect to the U.S. payment system?