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December 14, 2018

Via Electronic Submission

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**

Dear Ms. Misback:

TD Bank, N.A. ("TD Bank") appreciates the opportunity to provide comments to the Board of Governors of the Federal Reserve System ("Board") in response to its request for comment ("Request") about potential actions that the Federal Reserve could take to promote ubiquitous, safe and efficient faster payments in the United States. As an initial matter, TD Bank supports the Board's objective to promote ubiquitous, safe and efficient faster payments in the United States. We also supported the Federal Reserve's efforts to convene the Faster Payments Task Force ("FPTF") and actively participated in the FPTF, which has been a moving force behind the private sector's progress to date on faster payments.

In the Request, the Board seeks comment on two potential services that could be offered by the Federal Reserve Banks ("Reserve Banks"): (1) a 24x7x365 real-time gross settlement ("RTGS") service for faster payments (the RTGS service); and (2) a liquidity management tool that would enable the movement of funds 24x7x365 among Reserve Bank accounts (the liquidity management tool).

Offering an RTGS service would involve the Reserve Banks entering the faster payments playing field with their own proposed settlement service, which appears to be similar to the existing Real Time Payments ("RTP") Network currently offered to financial institutions by The Clearing House ("TCH") that is showing great promise in achieving the Board-endorsed FPTF effectiveness criteria for faster payments. The liquidity management tool is independent of the first service and would involve the Reserve Banks supporting and facilitating settlement of private-sector faster payments systems.

For the reasons described below, TD Bank believes that the Reserve Banks' development of a separate 24x7x365 RTGS service would hinder, rather than promote, faster payment services in the United States, even if the Board were able to determine, consistent with its statutory obligations, that other providers alone cannot be expected to provide the service with reasonable effectiveness, scope and equity. For the reasons discussed, we do not believe that it is in the best interest of the U.S. payment system to adopt this aspect of the proposal, and we do not believe that a Reserve Bank RTGS service would serve to advance, in the most efficient manner, the U.S. payment system to equal footing with other real-time payment systems in the global economy.

With respect to the proposed liquidity management tool, we believe that the goal of expanded liquidity management capabilities is worthwhile and should be pursued. However, TD Bank believes that expansions to, and modernization of, existing Reserve Bank services, including the Fedwire Funds Service ("Fedwire") and the National Settlement Service ("NSS"), may be a more effective approach, rather than developing a new liquidity management tool.

As background, TD Bank is a significant participant in U.S. payment systems. We actively participate in U.S. wholesale and retail payment systems. For example, in 2017, we were the sixth largest ACH receiver, and the thirty-fifth largest ACH originator. Annually, we process approximately 650 million checks, with a total value of approximately $800 billion. Our total annual inbound and outbound wire activity is approximately 3.5 million wire transfers, with a total value of more than $1 trillion.

In addition, as mentioned above, TD Bank has actively supported faster payments initiatives in the United States. We participated actively in the FPTF, including by holding a seat on the Steering Committee and participating on the Editorial Board. We also have an active project to connect to and participate in the RTP Network during 2019, and we sit on TCH's RTP Business Committee. Moreover, as an equity member of TCH, TD Bank has already made a significant investment to build the core of the RTP Network, and we anticipate additional future investments to expand the system's capabilities. Within TD Bank, we have committed to a significant investment for the first phase of our RTP Network implementation, and we expect incremental expenses of a similar or larger nature in a subsequent phase. We have also invested to enable same-day ACH capabilities for our customers. As such, TD Bank has demonstrated its commitment to promote faster payment capabilities within the bank and in the United States more broadly, and TD Bank supports the Federal Reserve's efforts to promote the same.

TD Bank believes that Reserve Bank development of a separate 24x7x365 settlement service would hinder, rather than promote, faster payments in the United States.

The private sector, working both independently and in close coordination with the Federal Reserve, has developed and started to execute on faster payment offerings. For example, in 2017, TCH launched the RTP Network, which is a 24x7x365 RTGS service. While the RTP Network is progressing through a "start-up phase," TCH and its owners expect the service to grow significantly over the next 12 months.

The RTP Network was in the planning stage in 2014, and arose from an effort by TCH and its owners to be payment system innovators, with the shared and clear intention to create a ubiquitous and safe faster payment system. As the effectiveness criteria for such systems emerged from the FPTF, the design of the RTP Network was adapted so that there would be alignment with these criteria. As a result, the RTP Network has been built in accordance with the 36 effectiveness criteria set forth by the FPTF and the guiding principles published by the Bureau of Consumer Financial Protection.

The private sector has invested substantially in the RTP Network. TD Bank is but one of the equity members of TCH, and TD Bank alone has made a significant investment and devoted key personnel to developing the roadmap for the RTP Network. We consider the resources expended on the RTP Network considerable and a reflection of the benefit we see for our customers. Any action by the Federal Reserve that delays critical mass adoption of the RTP Network would negatively impact our customers, cost TD Bank significant resources and run contrary to the stated goal of a swift adoption of faster payments in the United States.

Work on the RTP Network is not done. For example, TD Bank is in the process of implementation and planning for commercialization in 2019. We have committed to a significant investment in the first phase of our RTP Network implementation, and we expect incremental expenses of a similar or larger nature in a subsequent phase. Notwithstanding the work remaining to be done, in our view TCH has a viable plan to reach ubiquity by 2020, consistent with the FPTF effectiveness criteria. That plan, however, is dependent on adoption by, and execution of, financial institutions and other stakeholders throughout the country. The magnitude and dimension of the work remaining for the RTP Network is significant.

The Request has the potential to undercut the significant progress TCH and RTP Network participants have made in bringing faster payments to reality in the United States. Some financial institutions would speculate on the probability that the Federal Reserve will move forward with the development of its own faster payments system. Based on this speculation, it would not be unreasonable for these financial institutions, which may be considering adoption of the RTP Network, to delay their plans to participate in the RTP Network, pending clarity from the Board.

The best path toward faster payments in the United States is not to divert the current resources of financial institutions and other stakeholders to implement another RTGS service. For example, it has been TCH's experience that it is a significant challenge to integrate financial institution- and customer-facing systems in order for financial institutions and their customers to realize the benefits of the RTP Network. TCH is well along the way to addressing this challenge, but it would divert financial institutions' resources to integrate separately to the Reserve Banks' systems and TCH's resources to develop and deploy rules, standards and capabilities to support interoperability with another RTGS service.

Furthermore, as is required by the Board's policies, the Board will need to make a determination that the private sector alone cannot be expected to provide a RTGS service with reasonable effectiveness, scope and equity. The Board's policies state that the Federal Reserve may, for example, provide a new service to avoid undue delay in the development and implementation of the services. Here, however, a Reserve Bank RTGS service could, itself, result in an undue delay in the development and implementation of the service. Moreover, a number of faster payment proposals were evaluated by the FPTF, including TCH's RTP Network proposal, that would effectively meet the FPTF's 36 effectiveness criteria. We further note that TCH is committed to equitable access to the RTP Network, including by maintaining flat pricing, no volume discounts, and no minimum volume requirements for all RTP Network participants.

TD Bank believes that interoperability of two 24x7x365 settlement services would present significant practical challenges.

TD Bank sees the interoperability of two proposed RTGS services as a significant challenge to U.S. faster payments. Full interoperability would be critical to achieving ubiquity and the public benefit of the 24x7x365 faster payments service. If the Reserve Banks were to offer a RTGS service, the Reserve Banks' RTGS service and the RTP Network (and any other RTGS service in the market) would need to ensure that clearing and settlement are simultaneous and functionally indivisible across services, and that functional parity is established and maintained on an ongoing basis as both systems evolve and innovate over time. We expect that this would be challenging, particularly where interoperability is required between private-sector and public-sector entities.

Should the Board determine to move forward with a Reserve Bank RTGS service, the Board must fundamentally determine whether the Reserve Bank RTGS service would be interoperable with the RTP Network or any other RTGS service. If interoperability is not achievable, the Reserve Banks' RTGS service offering would fragment the market and cause unnecessary cost and delay to the implementation of faster payments in the United States. Interoperability would require fully aligned functionality and rule sets, and the Board should not assume that interoperability between two RTGS services can be achieved.

With respect to functionality, when payments are sent through the RTP Network, there are multiple acknowledgement messages sent between participants and the network that happen within milliseconds of each other. These acknowledgement messages indicate whether the receiving participant has accepted, rejected, or pended a payment. This message is passed from the receiving participant to the network to the sending participant in milliseconds, and the sending participant must, in turn, immediately share the payment's status with the sender. Providing this real-time visibility to senders is one of the many features of the RTP Network that brings significant value beyond basic clearing and settlement, achieving the ideals set forth by the FPTF in the effectiveness criteria endorsed by the Board. Other non-value messaging capabilities have also seen strong demand. If the functionality of both systems was not fully aligned, or if such alignment was not maintained, it would hamstring the U.S. payment system by restricting innovation.

With respect to fully aligned rule sets, a second RTGS service operating under different rules would challenge participant expectations with respect to settlement, dispute rights, and messaging capabilities. TCH has published the RTP Network rule sets, which include clear descriptions of network capabilities, set forth sending and receiving participant obligations, and set expectations with respect to settlement and finality. Any variability among the RTGS services with respect to these core system rules would inhibit interoperability, and as a result, ubiquity.

Without interoperability, to achieve ubiquity, financial institutions would need to participate on both the RTP Network and the Reserve Banks' RTGS service. Two separate ubiquitous systems would add enormous and unjustifiable cost to the market. TD Bank believes that the practical result of these costs would be a fragmented faster payment market, with no single system achieving economies of scale and full network effects. Under these circumstances, end-user services would suffer as service providers would be forced to either develop services that can be supported by multiple systems or choose between systems.

TD Bank believes that liquidity management capabilities for weekend and holiday periods could be helpful, but consideration should be given to expanding existing capabilities, including access to Reserve Bank credit outside of normal banking hours and expanded hours for existing Reserve Bank transfer services.

Currently, the Federal Reserve has no mechanism to provide access to a balance in a Reserve Bank account on a weekend or a holiday, because of the longstanding tradition that Reserve Bank services are rendered only during "banking hours" and on "banking days." This conception of banking hours and banking days has evolved over time, which has been part of the driving force behind the RTP Network. Because this fundamental assumption of when banking services should be available has changed, we believe it is also appropriate to reconsider the Reserve Banks' traditional offering, with respect to providing both liquidity and core payment services.

In our view, the Federal Reserve would do well to enable payment system participants to move liquidity in Reserve Bank accounts, such that the liquidity could be used by financial institution participants in a faster payment network, during a weekend or on a public holiday. This is consistent with the historic role played by the Federal Reserve as a liquidity provider.

Enabling liquidity management can be achieved through simple functionality; that is, a means to move a balance in a Reserve Bank account during a weekend or on a holiday so that the balance could be used to effect payments.

We note that the Request refers to a joint account held at a Reserve Bank for the joint benefit of settling financial institutions in a private-sector settlement service. With respect to the RTP Network, the joint account is owned by RTP Network "Funding Participants" and "Funding Agents" and used by the RTP Network. Settlement in the RTP Network is effectuated through entries on an RTP Network ledger, which is fully backed by the balance in the joint account, thereby making RTP Network settlement the practical equivalent of settlement in central bank money. Participants fund their RTP Network ledger positions and receive disbursement of excess network liquidity through Fedwire transfers. Nonetheless, because the RTP Network operates 24x7x365 and the Fedwire does not, there are certain periods of time, the longest being weekends and holidays, when Funding Participants and Funding Agents are unable to "top up" RTP Network positions or withdraw excess liquidity from the RTP Network.

While there is a means for RTP Network participants to lend each other liquidity in the Network outside of Fedwire operating hours, it would be helpful if Fedwire was available outside of standard business hours. TCH has built the RTP Network to interact with Fedwire. If the Federal Reserve were to implement a liquidity management tool through means other than expanding Fedwire operating hours, the service would require technical changes to the RTP Network and result in unnecessary cost and operational complexity.

Moreover, because the Federal Reserve does not treat the RTP Network joint account balance as reserves eligible for interest, another benefit of expanded Fedwire operating hours would be the ability of RTP Network Funding Participants and Funding Agents to better manage the use of their reserves. Specifically, expanded Fedwire operating hours would enable "just in time" transfers from RTP Network participants' Reserve Bank accounts to the RTP Network joint account and avoid the need to potentially over-fund their RTP Network ledger positions in advance of weekends and holidays.

Finally, we acknowledge that as participation in the RTP Network expands, there may be demand by financial institutions that do not staff wire rooms on a 24x7x365 basis for liquidity management tools with automatic transfer capabilities.

Subject to further industry consideration, TD Bank also believes that modernizing NSS and expanding its operating hours may be useful to faster payments services provided via ACH or other future private-sector arrangements involving settlement groups.

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We appreciate the opportunity to comment on the Request. If you have any questions, or wish to discuss this letter, please do not hesitate to contact the undersigned.

Respectfully submitted,

Karen Buck
Executive Vice President
Head of Commercial, Retail & Payment Ops