

Federal Reserve System, 12 CFR Chapter II, Docket No. OP – 1625

## Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments, Request for Comments

The following response is offered to the Board of Governors of the Federal Reserve System request for comment on Faster Payments and Interbank Settlement of Faster Payments. We offer the comments to provide feedback on the questions asked in the document and recapped at the end of the Docket OP – 1625 paper.

The Faster Payments Task Force asked the Federal Reserve Bank to develop a 24x7x365 settlement service to support faster payments and explore and assess the need for other Reserve Bank operational role(s) in faster payments. (Page 11 of the Docket). It is our opinion that the Federal Reserve Bank does need to be the 24x7x365 settlement point for faster payments to allow for the efficiency, security and confidence of the payments system for consumers, the business community, the economy of the United States and for settlement with other faster payment systems in the world. Several other faster payment frameworks are referenced in the Docket and present crucial points as we progress to a faster payment environment.

We feel strongly that the Federal Reserve Bank must also be a part of the operational role in the processing of faster payments. As discussed in the Docket, the transaction can have the settlement information packet as well as the payment information for processing to the individual or business for full posting to the customer's account. We are of the opinion that the Federal Reserve should develop a Real Time Gross Settlement (RTGS) service including the payment processing of the transaction also. If a private clearinghouse wants to process payments, that can be accommodated by utilizing only the settlement by the Federal Reserve Bank through that clearinghouse's relationship with their bank account. If only the settlement were to pass through the Federal Reserve Bank, we would prefer a separate transaction code for those entries for identification and balancing purposes. The security and availability of both a settlement and processing option by the Federal Reserve Bank will be critical for small to medium size community banks that may not desire nor participate in a private network for faster payments.

The efficient, effective, safe and secure settlement and processing of payment information is crucial to the financial infrastructure now and in the future for payments, however payments are processed. A delayed settlement structure would offer windows of opportunity for risk, fraud and exception item issues within a faster payments environment. That is why we agree with a RTGS service offered by the Federal Reserve Bank including the passing of payment data with the payment settlement. The Federal Reserve functioning both aspects of a payment will ensure that all sizes of financial institutions will have access in a secure environment with all regulations applying for participating in faster payments. If processing is only offered by the private sector, it is our opinion that the participation rate will be less than what could be possible and the small to mid-size banks could be left behind which would be damaging to communities across the country.

Availability of funds and the management of liquidity are also crucial components of the management of a 24x7x365 settlement and processing environment. We prefer having the two account structure at the Federal Reserve Bank (Master Account and Sub-Account for Faster Payments) for use by the banks that can have funds automatically drawn from the Master Account at the Fed or funded automatically from a correspondent bank's Master Account with appropriate paperwork and structure within the Federal Reserve accounting system. This will allow a bank to address the funds management need after hours, on the weekend and during holidays if it has already completed paperwork with the Federal Reserve Bank to allow for the movement of funds between the accounts (Master and Sub-Account for Faster Payments) at the Federal Reserve Bank. The management and preparation by the bank prior to overnight or weekend processing would be a requirement of the account holding bank. If the faster payment volume is more than expected and the Master Account does not have the appropriate funds available, faster payments would fail for processing. Real time settlement for faster payments avoids interbank settlement risk by aligning the speed of interbank settlement with the speed of the underlying payments. However, a process for exception processing would need to be a component because exceptions and incorrect payments will occur in an operating environment.

While discussing the access to funds, if fraudulent or duplicate payments were to be received from an originating entity for processing which could create a liquidity issue for a given bank, tolerance levels should be a component as history is achieved in the processing of faster payments to allow for fraud or review opportunities to alert and detect volume peaks. A particular bank would need to review and determine if payment transactions are legitimate, duplicates or of a fraudulent nature. Notices would also be needed in a faster payments environment if payments began to fail to protect and maintain the reputation and confidence of the faster payments environment. Based on existing industry practice, whereby aliases such as email addresses are used to process payments, a payment directory is necessary in a faster payments environment. In answer to the Board's question of if auxiliary products would be needed down the road, it is our opinion that auxiliary services would be necessary as faster payments progress for prevention, detection and remediation of potential and actual exception payments and potential fraudulent transactions.

The Federal Reserve Bank being involved and a supplier of the process to settle and process the payment information will be conducted within the processes, rules infrastructure, agreements and laws that banks must adhere to. This is a concern for non-bank processors of faster payments not having the same playing field for CIP, Reg E, AML and other regulatory requirements which could affect the reputation and integrity of the overall payments environment.

We are in favor of the pursuit of faster payments in the United States. The timeline should be as soon as a safe and secure infrastructure is operational for the passing of the payment data and the simultaneous settlement of those payments. Core processing provider involvement will be crucial for interoperability with the RTGS systems to achieve a ubiquitous environment. Interoperability between the Fed's RTGS system and private provider systems would also be vital. We have operated in the United States for years with payment information being processed with accounting entries being completed at a later date (settlement date). However, the faster payments initiative would require both the processing and payment to happen simultaneously or much more risk will be experienced with the potential for loss

and fraud schemes to become more impactful to the payment environment. This could affect consumers, businesses and banks if that were to occur.

There are intriguing and crucial aspects of the questions posed by the Board of Governors. It is difficult to answer all of the questions presented in Docket OP – 1625 because some answers may determine a different opinion if the processing and settlement environment are completed in various scenario's. We look forward to the pursuit of faster payments but feel the Federal Reserve Bank must be an integral participant and provider to ensure ubiquitous access and a safe, efficient payments structure. Thank you for the opportunity to comment.

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