

Proposal: 1625 Potential FR Actions to Support Interbank Settlement of Faster Payments

Description:

Comment ID: 133111

From: James Dailey

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Subject: OP-1625 -Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments

Comments:

NONCONFIDENTIAL // EXTERNAL

Dear Payments Working Group,

I welcome the changes proposed by the Federal Reserve, especially as they regard to changes in the Settlement system. I support the general direction to ISO-20022, in particular for payment instructions related to Settlement. I do, however, want to suggest that we decouple the payments industry in the US from the ISO processes and strictly message based architecture. The ISO process is not well equipped to deal with such innovations. The innovative future is more about API management, API versioning and Gateway controls of use of specific APIs. I think that Settlement, in fact, could go in the direction of API driven events, providing for a more dynamic settlement process. In looking at various timing of net settlement, there is a risk of settlement transactions that are not frequent enough and thus increase risk but also in the too frequent transactions which lead to situations where the expectation of immediate settlement creates a disincentive to manage risk.

I write also as the Board Chair of Mifos .org, a US non-profit with a mission to provide the definitive open source banking platform for financial inclusion. In our work, we see the need for a healthy ecosystem of many banks, credit unions, and non-bank financial institutions across the globe that can participate in a kind of financial-mesh. Regulated account systems should be encouraged to connect directly to the Settlement mechanisms so that they are not put at a disadvantage relative to the massive banks, which we are told are "too big to fail". Smaller banks, community banks, Credit Unions, and even new State-Owned banks in the US have a vital role to play in providing a rich ecosystem of account-based services.

Thank you,
James Dailey