



December 14, 2018

**By Electronic Submission**

Ms. Ann E. Misback  
Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Ave. N.W.  
Washington, D.C. 20551

Re: Docket No. OP-1625: Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments.

Dear Ms. Misback:

The Minnesota Bankers Association (MBA) appreciates the opportunity to comment on the Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments. The MBA is a trade association representing more than 95 percent of state and national banks in Minnesota. Its membership includes banks of all sizes, from independent community banks to large regional banks. The vast majority of the MBA's member banks are community banks. Minnesota is home to 300 bank charters with its median size institution having \$112 million in assets. There are 59 banks (20% of our total banks) with \$50 million in assets or less.

The MBA is proud to represent banks of all types in Minnesota. The variety in bank size and complexity means that their interests don't always align. Faster payments is an issue where our membership is not in complete agreement. From our community bank members, we have heard a great deal of support for the Federal Reserve offering a faster payments system. On the other hand, some of our larger members have worked closely with the Federal Reserve to develop a Real Time Payments (RTP) Network that works for all banks and credit unions. They believe that establishing a second system would be duplicative and would slow innovation in the payments system.

The community bankers we have heard from trust the Fed to develop a system that would serve all banks fairly and allow them to compete with larger institutions. They also believe that competition in the real time payments space would keep costs down and mitigate the risk of a single-system collapse. Some would prefer a real time gross settlement system (RTGS) that can create a real time payment, while others like the idea of a deferred net settlement (DNS) process that can use the existing Fedwire system to speed payments with reduced cost and quicker implementation. If a DNS system could be offered expeditiously

while a RTGS is developed, some have suggested that would be ideal. The concern being that If banks are kept waiting for a RTGS, their ability to compete could be hindered.

Banks that have developed the RTP Network note that it is designed to meet the needs of all financial institutions and works with third-party processors and bankers' banks. They expect the RTP Network to have universal reach by 2020 and argue that a separate government system could delay the overall adoption of faster payments.

Our members do share some common goals. Regardless of whether the Fed develops a faster payment system, our members would appreciate a liquidity management tool that would allow payments from the bank's master account to a faster payments account. Such a tool would prevent funds from sitting in a real time payment account unnecessarily and from low balances interfering with payments overnight or on weekends.

If the Fed does develop a faster payments system, our members want that system to be compatible with the RTP system and any future private-sector real time payment systems. A set of rules that all systems must follow would aid in interoperability. It's also important to keep in mind that any upgrades needed to core processors for real time systems will likely be expensive for community banks. Having fewer required changes to the core systems will reduce the cost to community banks.

Finally, access to a Fed RTGS should be limited to chartered financial institutions. The risk of data breaches and other cyber crimes would be mitigated by limiting direct access to federal- and state-chartered banks. Unregulated entities would present too much risk to the system, especially when one considers how quickly fraudulent transactions would move funds out of an account.

Thank you for the opportunity to provide feedback and for your consideration of our comments.

Respectfully,

Teresa Rice  
General Counsel