



BANK OF THE WEST
BNP PARIBAS

December 14, 2018

Via Electronic Submission

Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue N.W.
Washington, DC 20551

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

Dear Ms. Misback:

Bank of the West appreciates the opportunity to provide comments to the Board of Governors of the Federal Reserve System (“Board”) in response to its request for comment (“FR Notice”) about potential actions that the Federal Reserve could take to promote ubiquitous, safe, fast and efficient payments in the United States. Bank of the West is a financial services company headquartered in San Francisco, California with \$89.6 billion in assets as of June 30, 2018. With community bank roots dating back more than 140 years, Bank of the West operates a network of retail, wealth, commercial and business banking branches and offices in 24 states. The Bank has more than 10,000 team members serving the needs of 2.06 million customers. Through major business areas-Commercial Banking, Consumer Banking, and Wealth Management-Bank of the West originates commercial, small business and consumer loans and leases, and offers a wide range of banking, trust and investment solutions for individuals and businesses. Bank of the West is a subsidiary of BNP Paribas, a leading bank in Europe, which has a presence in 73 countries with more than 198,000 employees.

We support the Board’s objective to promote faster, safe, ubiquitous payments that can be made 24/7 anywhere in the United States. We also believe the Board appropriately used its convening power in bringing together the Faster Payments Task Force, which was a moving force behind the progress made to date by the private sector.

In the FR Notice, the Board requested input on two specific and independent ideas:

(1) The first idea relates to the development of a 24/7 Reserve Bank service for faster payments. This idea involves a principal public sector role, with the Reserve Banks entering the faster payments playing field with their own proposed payments product.

(2) The second idea relates to a liquidity management tool which would have the Federal Reserve play a supporting and facilitating role, by acting as a liquidity source supporting private sector faster payments systems. The liquidity management tool would enable the movement of funds 24/7 among Federal Reserve accounts.

For the reasons described below, we are concerned that the Reserve Bank development of a competing public sector 24/7 faster payment service could hinder, rather than promote, faster real-time payments in the United States. With respect to the proposed liquidity management tool, we believe that such a tool might be useful, especially if it provides liquidity during weekends and holidays, when it is most needed.

A service offering by the Reserve Banks for a real-time gross settlement of faster payments that is available on a 24/7 basis could hinder faster payments in the United States.

The FR Notice makes only a brief reference to the fact that there is currently a system for making faster payments in the United States. It was launched in late 2017, and is designed and actually makes payments on a 24/7 basis within the United States. The system is called the RTP Network, and it is owned and operated by The Clearing House Payments Company (“TCH”). Bank of the West is one of the Class A owners of TCH, and, as both an owner and a U.S. financial institution dedicated to its customers, has a direct interest in the success of the RTP Network.

The RTP Network is now operating but it is still in a “start-up phase,” with plans to grow significantly over the course of the coming 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 real time payment system. As the necessary criteria for such a system emerged from the deliberations of the Faster Payments Task Force, the design of the RTP Network adapted so that there would be alignment with the

principles and criteria produced through that collaborative effort. As a result, the RTP Network has been built, with Federal Reserve encouragement, in accordance with the 36 criteria set forth by the Faster Payments Task Force and the guiding principles of the Consumer Financial Protection Bureau.

The owners of TCH have collectively committed in excess of [\$130,000,000] million to this new payments network and is committed to operating in the best interests of bank customers and the financial industry more generally, and in a safe and sound manner. The Board encouraged TCH's owners at each material step, and stated on several occasions in their public releases that it would not enter the field as a competitor unless there was convincing evidence that the private sector would not deliver on the vision of faster payments by 2020. TCH and its owners relied on the Board's statement. As one of TCH's owners, Bank of the West has invested a substantial sum to support the RTP Network, money put toward research, development of necessary infrastructure, and implementation, as well as devoting key personnel. We have also spent considerable time and effort in the development of Zelle and the interoperability of the Zelle and RTP Network capabilities, building a complete solution for the industry and market needs. But our monetary contribution is just one component of what we have done to make the RTP Network operational. We have also taken action to adapt our delivery channels and to incent our customers to do so as well. These required changes were necessary to ensure that the infrastructure in our institution and used by our customers would have the operational capability to integrate with the RTP Network. We are concerned that a separate solution proposed by the Fed would potentially mean further fragmentation of our investment dollars, with minimal incremental benefits to our organization.

We do not wish to suggest that all of the work on the RTP Network is done. TCH, in our view, has a viable plan to reach full ubiquity, but the plan is dependent on the execution of banks and customers throughout the country. The magnitude and dimension of this work are significant, and present a challenge to the achievement of the objective, whether the challenge is faced by the RTP Network or by a public sector effort.

The FR Notice is not clear as to the Federal Reserve's future plans to enter the faster payments playing field. This lack of clarity is concerning as it may cause passivity in banks that otherwise would be moving to participate in the RTP Network. Some financial institutions will speculate that there is a probability that the Federal Reserve will move forward with the

development of its own competing system for faster payments. These institutions, which may have been contemplating the speedy adoption of the RTP Network, may put their plans to move forward with the RTP Network “on pause.”

The proposal explicitly suggests that the central bank’s faster payment system would be better than the private sector RTP Network because it would settle in “central bank money” rather than on a “private ledger.” In our view, a Federal Reserve 24/7 real time gross settlement Network is not necessarily superior to the RTP Network because it settles in “central bank money.” It is just different. From an end-user perspective, we believe that the nature of the two systems would be identical; both would begin and end with an account at an insured depository institution. Further, as the FR Notice itself recognizes, interbank settlement on the RTP Network “is performed using a private sector-owned settlement ledger that is backed by funds in a ‘joint account’.” As the FR Notice recognizes, this joint account is on the books of a Federal Reserve Bank, making RTP Network settlements similar to settlement in central bank money.

Because of this explicit statement, we are concerned that the FR Notice might have a discouraging effect on banks contemplating the use of the RTP Network because of what they will perceive to be negative comments by the Board. The proposal may be construed to imply that the Federal Reserve’s faster payment system is something that the institutions should wait for, rather than moving forward to address customer needs with the RTP Network. We observe that a negative perception can easily become a reality, especially when the negative comment is coming from the Board, the RTP Network’s regulator (and the regulator of the many banking organizations that are TCH’s owners).

We are concerned that the suggestion by the Federal Reserve of a coming competing system, and one that might even be superior, does the damage. Merely raising the prospect is sufficient to cause some banks to wait for it. Just “around the corner” there will be a public sector alternative to the RTP Network, so why should any bank proceed into private sector faster payments now? We are concerned that publication of the FR Notice may have set back the effort to move toward faster payments in the United States. Bank of the West has built a sound business case for our investment based on market acceptance and usage by our client base. Fragmenting, or delaying the intended market acceptance could have a negative impact on our overall business case and certainly on our client acceptance.

The timing of the FR Notice comes at a sensitive moment for the RTP Network. The RTP Network is in a vulnerable state since it has just started operating and attracting energy and momentum. If those considering the RTP Network now decide on a “holding” response, this energy and momentum might be lost.

It is our belief that the best path toward faster payments in the United States is not to abandon the Board’s encouragement of the RTP Network and not to offer a competing product.

One lesson that the RTP Network has learned through its experience is the difficult challenge of integrating bank and customers facing systems, so that the benefits of the RTP Network are realized by both banks and their customers. The Federal Reserve would face this challenge just as it faces TCH, with one very key difference. TCH is already addressing the challenge.

The suggestion that the FedLine connections in place today between the Federal Reserve and its customers will support a faster payment system and provide a swift way for the Federal Reserve to enter the market is not supported by our implementation experience with banks, core processors and end users. In our view, FedLine network connections are not typically sized or configured with the capacity and low latency needed to handle retail real-time payment traffic. Financial institutions hoping to use the FedLine channel would likely need to upgrade or replace their Fedline network connections, and would also need to do work on their backend systems that connect to the FedLine channel to address the need to access DDA account on a 24/7 basis.

We also see interoperability of the proposed 24/7 service as an extremely challenging issue for any faster payment system. Full interoperability would be critical to the public benefit of the 24/7 service. This would require in the first instance that somehow the Federal Reserve’s settlement service and the RTP Network, in which settlement and clearing are simultaneous and functionally inseparable, be able to exchange payments without settling the payments twice. It would also require establishing and maintaining on-going functional parity as both systems evolve and innovate over time, which can be especially challenging when interoperability is between a private sector entity and a public entity. The benefits of interoperability and its impact on access, cost, and risk will depend on the degree to which full interoperability is attainable.

From our perspective, the private sector has done what the Federal Reserve anticipated it would do in 2015 when it published the Strategies White Paper, and under the Board’s own

policy, we do not see any basis for the Federal Reserve to offer a competing public sector product, at least at this time.

A liquidity management tool for weekend and holiday periods could be helpful, but this would involve Federal Reserve credit rather than a transfer capability between Federal Reserve accounts.

In the FR Notice, we were disappointed that the Board did not reference the RTP Network and the important work of The Clearing House and banks in describing its distinguishing features. “Each participant in this arrangement relies on the presence of balances stored in a single joint account at a Reserve Bank that is held for the benefit of the joint account-holding banks as a method of backing the private-sector service.” There is, however, an important nuance. The RTP Network operates 24/7 and effects faster payments at any time of the day or night on each and every day of the year. In contrast, account services at the Federal Reserve, and the joint account referenced in the Board notice, are not available on weekends or holidays throughout the year.

It is foreseeable that, assuming that the RTP Network develops and grows, there could be a situation where liquidity becomes “trapped” in an account at the Federal Reserve, and that liquidity cannot be put to a needed use. Currently, the Federal Reserve has no mechanism to provide access to a balance in a Federal Reserve account on a weekend or a holiday, because of the longstanding tradition that banking services are rendered only during “banking hours” and on a “banking day”. This conception of banking hours and banking days has changed, and the change in thinking about when a critical banking service like payments should be operational is one of the driving forces 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 Federal Reserve’s role in freeing up “trapped liquidity” so that it can be used in a way that has not been available in the past. In our view, it is this quintessential central bank function – being the liquidity provider to the banking system when liquidity is needed – that should be the focus, rather than the Federal Reserve as a competitor to a private sector transfer Network that it regulates.

In our view, the Federal Reserve could be very helpful in freeing the trapped liquidity in a Federal Reserve account, such that the trapped liquidity could be used by bank participants in a

faster payment network during a weekend or a public holiday. One might envision this as an extension of the historic role played by the central bank as a liquidity provider. The extension, however, would be modest – it would only be to “free up” trapped liquidity in Federal Reserve accounts so that the “freed up” liquidity could be used to facilitate a 24/7 faster payment Network. It calls for a simple functionality: a means to move a balance in a Federal Reserve account during a weekend or a holiday so that the balance could be used for a specific purpose i.e., effecting payments.

With respect to the RTP Network, the Federal Reserve insisted that the RTP Network develop a means of transferring available liquidity on the RTP ledger during off hours and encourage RTP participants to make liquidity arrangements that could be triggered if such a need arose through the use of the mechanism developed. Although this approach to managing liquidity on the RTP Network may suffice, it still relies on the existence of some level of excess liquidity on the RTP Network and a willingness to lend such liquidity. But on weekends and public holidays, the back-up lines could be unnecessary if trapped liquidity in a Federal Reserve account could be “freed up” so that the balances could fund payment activities. This kind of access to liquidity that would otherwise be “trapped” could be of great utility in all sorts of situations, such as an operational problem, a storm (e.g., Super Storm Sandy), or a terrorist attack (e.g., September 11th). In this regard, we note that performing this kind of traditional central banking function would also help the United States to achieve a 24/7 faster payments system in the short term. Fedwire is clearly fit for this purpose although it may not be necessary to keep all the functionality of the Fedwire service open on weekends and holidays.

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

Very Truly Yours,



Eileen Dignen

Executive Vice President, Cash Management and Commercial Card