



William J. Schoch  
President & CEO

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Via Email: [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)  
Ms. Ann Misback  
Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, N.W.  
Washington, D.C. 20551

Regarding Docket No. OP-1625, Interbank Settlement of Faster Payments

Dear Ms. Misback,

WesPay appreciates the opportunity to comment on potential actions of the Federal Reserve to support interbank settlement of faster payments. WesPay agrees with the Federal Reserve's premise that consumer and business payments expectations continue to evolve, and end-users expect enhancements in payments speed, convenience and accessibility. In addition, we believe the timing is right to move quickly with real-time payments in the U.S., an important evolutionary step in the U.S. payments systems and one that will surely enhance economic growth and global competitiveness. WesPay is supportive of the Federal Reserve playing a role in the evolution toward faster payments in the U.S. but has concerns about the model proposed in the October 3, 2018 Federal Register Notice.

### **Introduction**

WesPay has a proud payments legacy commencing with the establishment of SCOPE and a 46-year history that includes development of the original Automated Clearing House Rules. Today, WesPay is the oldest and one of the largest payments associations in the United States. With nearly 1,200 members, WesPay's mission is to build and share knowledge to guide members throughout their payments journey. The emergence of faster payments is of particular interest to our members, which are principally financial institutions in the Western U.S. operating the Mountain, Pacific, Alaska and Hawaii Time Zones. The region represented by WesPay is home to 25 percent of the nation's population and a corresponding volume of payments.

The comments in this letter represent a compilation of feedback collected in one-on-one discussions with financial institution members, input provided by the WesPay Board and Rules Advisory Council, and responses received from 68 participants in a November 8, 2018 online Town Hall and interactive survey to evaluate these proposed actions.

## **Comments on the Proposed Actions**

WesPay has a diverse membership in terms of asset size, charter type, geographic location and business focus. As one might imagine, we received a wide range of comments from our members, which we have organized into the succeeding four categories.

### The Federal Reserve Should Play a Role in Faster Payments Settlement

WesPay members believe the Federal Reserve (“Fed”) should play a central role in real-time payments and are supportive of the Fed standing-up and operating both settlement and liquidity management services. In fact, 85% of our online survey respondents stated that the Fed should proceed with both settlement and liquidity management services; similar sentiments are shared by members in one-on-one conversations. The second highest response to this survey question was “Don’t Know / Not Sure” selected by 9% of respondents.

This topic spawned the most robust feedback from members, including the following quotes:

- “I trust the Federal Reserve and would welcome the opportunity to leverage our existing Fed relationship and connections with a new payments service.”
- “The Federal Reserve is viewed as independent, without bias, and will enable a standardized service that is ubiquitous across financial institutions.”
- “There is an existing real-time solution in the U.S., but I think competition is healthy and will result in greater innovation and cost-effectiveness.”
- “Interoperability between real-time payment systems in the U.S. is mandatory. I want to choose my preferred provider and not be obligated to directly connect to all faster payments solutions.”

As stated earlier, members conveyed the importance of moving quickly. Over 30 countries have implemented faster payments solutions—including a pan-European Immediate Payments solution implemented in late-November—and the U.S. is perceived as lagging.

### The Federal Reserve’s Proposed Actions Will Slow Current Faster Payments Efforts

The Federal Reserve sponsored the Faster Payments Task Force, which was intended to spawn private sector innovation. The work of the Task Force focused a bright light on faster payments and resulted in significant U.S. momentum.

WesPay believes the Federal Register notice and the timing of the Fed’s proposed actions are put forward at an inopportune time in the development of faster payments and will likely have an adverse impact on the short-term evolution of faster payments. Private sector solutions developed by The Clearing House and others are in a nascent state of development and we understand financial institutions are actively evaluating those solutions. We are concerned that the Fed’s evaluation process will slow industry momentum in adopting faster payments solutions in the short-term. This could reverse some of the progress achieved by the Faster Payments Task Force.

In WesPay's online survey, 50% of survey respondents stated their intent to implement a faster payments solution within the next five years. We consider it questionable that the Fed will complete their evaluation and bring a solution to market in that timeframe. Should the Fed decide to move forward with the settlement and/or liquidity management solutions, we anticipate a majority of those WesPay members will delay their projects waiting to evaluate the Fed's solution. This will significantly impede current industry momentum. An additional 17% of WesPay respondents stated that their movement to faster payments would rely on the Fed's implementation of a service. The net result is nearly two-thirds of our respondents could classify as "wait-and-see" because of the Fed's late announcement and possible entrée to the market.

In a recent interview with Finextra, a representative of Vocalink, a private sector developer of a faster payments platform, estimated that within two years [conceivably by the end of year 2020], 80% of the global GDP markets will be enabled with real-time payments. WesPay appreciates that the Federal Reserve is deliberate but not expeditious in its actions, but the evolution to faster payments in the U.S. requires swift and immediate action. WesPay believes a multi-year effort by the Fed to evaluate, implement and roll-out a faster payments solution will result in significant delay of faster payments adoption by banks and businesses. This presents new risks to private sector solutions and faster payments evolution.

#### The Federal Reserve's Proposed Settlement Solution Should not be Restricted to the Faster Payment Service

Over the past five years, we have seen a number of legacy payment services endeavor to enhance and evolve their services by adding faster settlement and funds availability. WesPay believes these initiatives have been restricted by current Fed services and enhancements to settlement services should also be available to legacy payment systems.

One example of this situation is the development of Same Day ACH, which has been significantly limited by the operating hours of the National Settlement Service (NSS). The NSS currently closes at 5:30 p.m. ET, which is the middle of the afternoon in the Western U.S. To accommodate this early closure, the first Same Day ACH window closes before the opening of business Pacific Time and the second window closes late morning Pacific Time. WesPay members have frequently informed us that this schedule disadvantages Western financial institutions and our data indicates that only one-third of Originating Depository Financial Institutions members offer Same Day ACH services to their customers and members. The current NSS deadline of 5:30 p.m. ET presents a significant roadblock to the modernization and equitable use of faster payments systems across the U.S.

However, the Federal Register Notice explicitly states that the proposed settlement service would only be applicable to the faster payments service. WesPay believes this is too restrictive and the capabilities being considered should be available to additional U.S. payments systems, thereby facilitating greater innovation of payments services. We understand that to accommodate this scenario, changes may be required to the proposed settlement service, which we believe would be a positive enhancement to the proposition.

In the 2015 Federal Reserve Strategies to Improve the U.S. Payments System, one of the stated objectives was to expand settlement capabilities for the further enhancement of a broad range of payment services. WesPay is still supportive of this goal and believes the Fed's change in direction with this proposal should be amended and made consistent with the earlier-stated strategy.

#### The Federal Reserve's Proposed Settlement Solution Will Introduce Significant Complexity and Cost for Community Institutions

In Docket No. OP-1625, the Fed outlines Real-time Gross Settlement (RTGS) and Deferred Net Settlement (DNS) options. The conclusion outlined in the paper is RTGS offers clear benefits from a risk management and efficiency perspective, making it the preferable basis for interbank settlement for faster payments. WesPay concurs that RTGS provides greater systemic risk management of the new payment service, but the trade-off of higher operational complexity and associated cost will result in a new barrier to entry for community financial institutions.

WesPay's community financial institution members rely heavily on technology partnerships for the launch and ongoing support of new payment services. We frequently hear from members that new service implementations with these partners are costly and, as a result, a barrier to entry. The service outlined by the Fed may be over-engineered and result in an inordinate cost burden to community institutions and therefore delay their market entry until the service has reached widescale adoption by businesses and consumers. This may ultimately result in a competitive disadvantage to community institutions.

We are aware that other countries have modernized their payments system by providing frequent DNS windows that enable a trade-off between risk management and operational complexity. We believe frequent DNS windows 24x7x365 would achieve the following goals:

- Reduce ongoing cost and complexity for financial institutions to participate in the service.
- Enable utilization of the settlement service by a wider variety of payment systems.
- Potentially facilitate interoperability of faster payments solutions by allowing additional time for transaction routing, clearing and settlement.

As we look toward a mature payment system with the potential of handling tens or hundreds of billions of transactions per year, gross settlement will add operational complexity to the treasury function of financial institutions that previously did not exist.

#### Summary

The Federal Reserve System has demonstrated significant leadership to advance U.S. payments systems and facilitate the move to faster payments. The Reserve Banks and Board of Governors' sponsorship of the Faster Payments Task Force has consolidated the industry with a common vision and requirements for faster payments services.

We are at a tenuous point in the development of U.S. faster payments. Private sector activities resulting from the Faster Payments Task Force are beginning to take hold and many indicators point to the near-term adoption of faster payments by financial institutions. The principal question seems to be whether ubiquity of faster payments can be achieved without the involvement of a Federal Reserve service. With the input from our members, WesPay has drawn the following conclusions:

- In the long-term, involvement of the Federal Reserve will aid broad adoption of faster payments in the U.S.
- In the short-term, the Federal Reserve's late decision to act as an operator could slow faster payments momentum in the U.S. and may potentially stifle private sector innovation in this space and reduce competition.
- If it decides to move forward, the Federal Reserve must design a solution that is interoperable with other faster payments solutions, enable settlement that can be leveraged by legacy U.S. payments systems, and allow community financial institutions to operate in a safe and cost-effective manner.

WesPay appreciates the opportunity to share our thoughts and I would be pleased to discuss our members' comments in more detail.

Regards,



William Schoch  
President & CEO

cc: WesPay Board of Directors  
WesPay Rules Advisory Council