



December 14, 2018

Via Electronic Submission

Ms. Ann E. Misback
Secretary

Board of Governors

20th Street and Constitution Avenue, N.W.

Washington, DC 20551

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

Dear Ms. Misback:

Bankers' Bank based in Madison, Wisconsin, a correspondent bank supporting community banks in primarily four states Wisconsin, Iowa, Illinois and Indiana respectfully submits the following comments on the Request for Comment on Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments notice. As an Appendix A to this document we are providing the names of community banks and other partners that have specifically indicated to us their support for the positions you will find. Since our beginning in 1981, our product diversification has enabled us to meet our bank's ever-changing needs. Central to our diversification and the diversification of payment options for community banks has been the role the Fed has played in allowing universal access to payment solutions. In looking to the future and our continued support of the success of community banking we believe that actions that the Federal Reserve (Fed) takes, or does not take, will shape the future of payments in the U.S. The success of the U.S. Payments system in efficiently, equitably and securely providing payment solutions up to this point has been predicated on the role that the Fed has taken in support of ICL, ACH and wires. As we look to the future we must be thoughtful in our approach, ensuring that the safety net that is present through the participation of banks in the payments process remains. For all banks to have equitable access in the future of payments, the Fed needs to continue to provide support for such through the delivery of updated and new services.

Bankers' Bank supports and shares the Board of Governors' goal of a modern, secure, and innovative payments marketplace. The Bank has been a strong supporter of this effort through active participation in the Faster Payments Task Force, the Governance Framework Formation Team and now as a founding member of the Faster Payments Council that has been convened through the collaboration efforts the Fed has facilitated.

In October several people at the Bank attended Hamilton, as we write this comment we could not help but think of the options that were being contemplated at the time and what additional challenges we would have

faced as a Nation if a central banking system had not been realized. An economic vision based on investment, industry and expanded commerce seems to have parallels to the discussion we are having today. The advancement of technology solutions is providing opportunity that is seemingly endless however its implications of systemic risk are real. We believe that a role the Fed provides is ensuring that that risk is accounted for and well managed.

Bankers' Bank believes in the Fed providing a Real Time Gross Settlement (RTGS) system and Liquidity Management Tool (LMT). In addition we believe that the Fed has an Operator and Directory role to play. As a correspondent bank we have provided the means for many community based financial institutions to access services in an aggregated manner. We also urge the Fed to continue to account for this successful method for community bank inclusion in their future plans.

- **Real Time Gross Settlement (RTGS):** RTGS is the needed direction to ensure that we have a universally viable U.S. Payments solution. In making that direction a reality we need to take into consideration not only new faster payments solutions but also the solutions that are successfully serving the payments market today. ACH and wire transfer systems as well as any private-sector faster payments offerings should be considered as a new system is architected. Interoperability is a requirement. There is also a concern about the time it will take for such a solution to be operational. Time is of the essence which leads us to believe that the Fed needs to renew, in addition to developing RTGS, its focus on expanding the hours of the National Settlement Service (NSS). Including expanded hours on current open days and expanding to weekend hours.
- **Liquidity Management Tool (LMT):** The development of an LMT is needed to manage fund balances as the hours and complexity of payments activity grows. As with other services that the Fed currently offers we believe there is benefit for either banks to use a tool directly or through an entity acting as their agent. Handling 24/7/365 liquidity needs successfully requires new tools with equitable access for all financial institutions. The Federal Reserve is a logical architect of this service. The development of an LMT should be independent of solutioning for RTGS or other aspects of enhancing the U.S. Payments system as the evolution of payment enhancements will occur over a spectrum of time however liquidity management must occur at every phase of the evolution.
- **Operator Role:** Universal and equitable access to payment solutions has allowed the U.S. Payment system to successfully and effectively run with multiple payment options. As the contemplation of a role for the Fed to play with a new faster payment solution is made we would ask that the successes of the past not be overlooked. While new private-sector faster payment solutions are in the market the suggestion that the solutions will reach all financial institutions does not seem within sight. The participation of the Fed would create competition between price and service

levels benefiting all financial institutions in the marketplace. The Fed has the ability to address systemic risk issues more effectively than any private-sector entity.

- **Directory Role:** The challenge of reaching anyone, anywhere and at any time, creating a ubiquitous payment solution must be solved for. The Fed has taken steps to facilitate cross industry discussions on solution options. The need for a universal solution is integral to the success and participation of all financial institutions and their end users. We urge the Fed to continue efforts and consider more direct involvement in developing such a directory structure and/or data base. We believe that the ability to achieve universal access is predicated on this.

Although we have highlighted four potential roles above we do not see it as an inclusive list. There is work regarding fraud mitigation, system and end user security, rules and standards to name a few more important areas that require input, counsel and potential action by the Fed.

As we work toward a modern, secure, and innovative payments marketplace much of the credit for where we are today is thanks to the ongoing efforts made by the Fed. The recent efforts spurred by the publication of the 2015 “Strategies for Improving the U.S. Payment System” paper have provided the market a viable roadmap for payments system improvement which we applaud.

While there is uncertainty around the Fed role we continue to see innovation in faster payment offerings. Determining what and when the Fed will take steps will provide many financial institutions and the market additional clarity in developing their payment plans. The development and design of solutions by the private-sector is influenced by the role(s) the Fed will play. While the market will continue to innovate the Fed direction plays a pivotal role for many including community banks.

We thank the Fed and appreciate the opportunity to provide comment on these important topics. As an Appendix B we have provided answers to questions covering those posed in the “Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments” notice. If you have any questions regarding our comments, please do not hesitate to call me at (608) 829-5784.

Sincerely,



Matthew J. Sitkowski

Executive Vice President and Chief Financial Officer

Appendix A

Sherri Reagan
CFO
The North Salem State Bank
North Salem, IN

Scott Von Haden
President/CEO
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Ladysmith, WI

Michael Lindert
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The Bank of Mauston
Mauston, WI

Brian K. Meyer
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Northeast Security Bank
Independence, IA

Mike Tenpas
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UFS
Grafton, WI

Rachel Nesheim
President & CEO
First Community Bank
Newell, IA

Steven Dehnert
CEO
Badger Bank
Fort Atkinson, WI

Steven A. Brady
President and CEO
Community Savings Bank
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Travis J. Holt
President & CEO
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Kimberly A. Gillmore
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Lori A. Francis
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Jim Plagge
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Bob Howard
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Phil Keese
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Durant, IA

Kevin M. Black
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Gowrie, IA

Tamara L. Danover
President
Heritage Bank
Marion, IA

Appendix B

Is RTGS the appropriate strategic foundation for interbank settlement of faster payments?

Yes, Bankers' Bank believes that the long-term future is driving us to the need for a RTGS and as such a centralized method is needed to sustain the U.S. economic model.

Should the Reserve Banks develop a 24x7x365 RTGS settlement service?

Yes, with tools and rules to ensure the integrity and security of a new system. Demand and use cases will develop over time as understanding of the opportunities of faster payments grows.

Will there be sufficient demand for faster payments in the next 10 years, what adjustments would the financial services industry and its customers be required to make, what timeframe...?

It is hard to determine what the next 10 years will bring however if we look at the global market we would say yes. Too many unknowns and more detail needs to be gathered to make a definitive comment. We do believe that new faster payment solutions could finally replace checks. The Bank is convinced that the current proposed trajectory is going in the right direction. Adjustments will be made based on the solutions that are available and some will be substantial and others will be incremental. The timeframe will be based on many of the decisions that the Fed and private-sector come out with. Five years seems long though.

Should the Federal Reserve develop a liquidity management tool?

Yes, In order to reduce systemic risk a liquidity management tool should be developed. A Fed developed LMT could provide a common governance framework to view liquidity management in a new faster environment.

What type of liquidity management tool?

A LMT solution that is available 24x7x365 ultimately, with the option of some phased in approaches that match the hours of operation when funds can be moved. The architecture needs to be open API (Application Programming Interface) with controls.

Should the RTGS and the LMT be developed in tandem?

The LMT needs to be first.

Do RTGS and LMT help achieve ubiquity?

Yes, although as stated above you need to ensure that you have an LMT in place before you have funds that need to be managed. Long-term we believe that adoption would mirror adoption that is seen with wire services if the Fed provided RTGS. In addition with the RTGS a fraud solution being provided will be essential

as the fast movement of funds will require the ability to analyze and act on the movement of those funds from more than a facilitation aspect.

What other approaches?

The expansion of the National Settlement Service (NSS) would add value as we move on the road to RTGS. The Fed as an Operator providing universal access to a new interoperable faster payment solution. The Fed actively participating and developing Directory solutions to ensure access for all.

Beyond the provisions of payment and settlement services?

The Fed has provided transparency and a level playing field for financial institutions. While the faster payments environment grows and matures the ability to provide counsel on governance, regulatory guidance, rules and standards will be essential.

Ensuring that the methods for financial institutions to access services is important to maintain. Accounting for and allowing correspondent banks, if a bank so chooses, to play the same type of aggregator/agent roles that are available today into any new\future solutions.

