



**International Bancshares
Corporation**

December 3, 2018

Via email regs.comments@federalreserve.gov

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

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

Ladies and Gentlemen:

The following comments are submitted on behalf of International Bancshares Corporation ("IBC"), a multi-bank financial holding company headquartered in Laredo, Texas. IBC owns five state nonmember banks serving Texas and Oklahoma. With approximately \$12 billion in total consolidated assets, IBC is one of the largest independent commercial bank holding companies headquartered in Texas. IBC is a publicly-traded holding company. The Federal Reserve's proposal is very important to IBC's five subsidiary banks. We appreciate the opportunity to comment.

On October 3, 2018, the Federal Reserve invited public comment on actions the Federal Reserve could take to support faster payments in the United States. The potential actions, which would facilitate real-time interbank settlement of faster payments, build on collaborative work with the payment industry through the Federal Reserve System's Strategies for Improving the U.S. Payment System ("SIPS") initiative. In its proposal, the Federal Reserve stated that, "Faster payment services are valued for the conveniences they provide, such as the ability to pay another individual on-the-spot using a mobile phone application. They also provide consumers, households, and businesses more flexibility in managing their money because faster payments can be sent and received at any time, on any day."

The Federal Reserve seeks comments on two potential actions that may support the further development of faster payments in the United States while purportedly increasing the resiliency and security of services offered to the public: 1) the development of a service for real-time interbank settlement of faster payments 24 hours a day, seven days a week, 365 days a year (24x7x365); and 2) the creation of a liquidity management tool that would enable transfers between Federal Reserve accounts on a 24x7x365 basis to support services for real-time interbank settlement of faster payments, regardless of whether those services are provided by the private sector or the Federal Reserve Banks. The Federal Reserve is not committing to any specific action and is seeking input on which, if any, actions the Federal Reserve should take.

Comments

Our understanding is that the Federal Reserve is seeking the banking community's interest in having the Federal Reserve as a point of interbank settlement; but additionally, the Federal Reserve is apparently considering providing a real-time payments platform to compete with The Clearing House ("TCH") Real Time Payment ("RTP") platform.

Mid-sized and small banks who are not owners of The Clearing House are particularly interested in pursuing this idea.¹ Currently, TCH is the United States' real-time solution, and some institutions would like to see more options and a competitive environment.² For non-owner banks, having TCH as the sole provider of 24x7x365 real-time payments (at least for the foreseeable future) is problematic as it enriches their large bank competitors.

If the Federal Reserve pursues the role of faster payment operator based on the comments received from the industry, it will face significant competition. TCH has eight of the largest banks live on their system already.³ Several other financial institutions are far along in their efforts to integrate with TCH; collectively, they would represent the majority of accounts in the United States.⁴ It is our understanding that other organizations including the large processors are already developing product overlays and services like fraud detection capabilities based on the TCH model.⁵ Would the Federal Reserve's entry bifurcate the country's faster payments business, creating a two-tier, large vs. small institution system?

We have some concerns that the introduction of a new real-time payment option will slow the decision-making process for many financial institutions as they wait to understand what the Federal Reserve's next move will be. Adoption in the United States is already anticipated to be slow due to other near real-time solution options such as same-day ACH, the card networks' push payments and Early Warning's Zelle solution offering competing products in real-time.⁶

As previously noted, the new proposal has two major facets: (i) the RTGS plan for settlement of payments every day at all times; and, (ii) a so-called liquidity tool the Federal Reserve says could increase banks' participation in a real-time system by limiting exposure that can arise outside of business hours. The general idea behind both is to reduce the *risk* from providing funds to payment recipients before settlement has actually occurred.

We understand that faster payment services are valued for the conveniences they may provide. They also provide consumers, households, and businesses more flexibility in managing their money because faster payments can be sent and received at any time, on any day.

¹ "Wait, What Did the Fed Just Say About Real-Time Payments?," Payments Journal (October 5, 2018).

² *Id.*

³ *Id.*

⁴ *Id.*

⁵ *Id.*

⁶ *Id.*

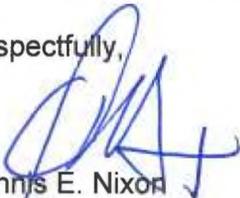
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However, we believe that *risk* will be an unwelcome component of faster payment services. Thus, in considering how to facilitate real-time interbank settlement of faster payments, the Federal Reserve should be very cautious in not introducing more risk into the real-time interbank settlement system.

Speaking of risk, IBC has very serious concerns with the Federal Reserve's treatment of Fedwires in certain situations. In particular, IBC is concerned with obtaining the return of a Fedwire to the sending financial institution due to errors made by the sending financial institution (e.g., incorrect beneficiary or account number). Currently, wire transfers are sent directly to the beneficiary bank through the Federal Reserve and there is very little assistance in getting them returned to the sending financial institution. Additionally, the beneficiary's account debit authorization should not be required under Regulation E for erroneous returned wires as, in some cases, such consent is not given due to fraudulent reasons and there is unjust enrichment at the expense of the sending financial institution. The elimination of this requirement would greatly expedite the return of these wires. We respectfully request that the Federal Reserve address these problems in a future rulemaking proposal by eliminating the need for beneficiary account authorization for wires containing errors and implementing specific methods to assist sending financial institutions with obtaining their return such as providing a safe harbor for receiving financial institutions that place a hold on their customer's account and return funds to the sending financial institution.

Thank you for your consideration.

Respectfully,



Dennis E. Nixon
President
International Bancshares Corporation