

To: The Board of Governors of the Federal Reserve System

Re: Docket No. OP-1625

The speed of commerce in the United States has been increasing steadily during recent years. Today, consumers can purchase, receive and utilize a product or service much faster than they can pay for it. In many cases a product or service has been fully utilized well before financial settlement has been made. In other cases, capital is in limbo and unable to be invested in the economy while that capital waits for interbank settlement to finalize. The creation of a Real Time Gross Settlement (RTGS) system that is available 24x7x365 as proposed by the board is an important step to the future of the U.S. payment system.

In order for the U.S financial system to ubiquitously adopt a faster payment system it is necessary for there to be a common and trusted business partner between financial institutions that wish to transact business. This business partner needs to provide the framework for institutions to transfer value to each other. The Federal Reserve banks holds the unique position in the U.S. of an entity trusted by all financial institutions and which has a large and mature network of connected financial institutions.

While it is possible for a private entity to create an RTGS system, gain a sufficient level of universal trust, and establish relationships and connections with thousands of financial institutions, that process will take years or even decades for such a private entity to accomplish. The Federal Reserve Banks are uniquely positioned to bring faster payments to the U.S. more quickly and less expensively than any other entity.

If the Federal Reserve Banks determine to implement the RTGS system proposed it will be essential that financial institutions be able to manage capital held at the Federal Reserve Banks on a similar 24x7x365 basis. Implementing the proposed RTGS system without implementing the proposed liquidity management tool would be unwise.

One of the great challenges of a faster payments system will lie in the ability of the originator of a payment to identify the receiver of a payment in the instructions to the network operator in such a way that the operator can correctly route the payment. Currently, systems such as ACH, use bank routing and account information. There is no way for the originator to obtain this information unless it is provided by the receiver or the receiver's agent. The proposal suggests a national directory service allowing an originator to search for an alias of the receiver. If such a system is created great care must be used to ensure that the alias does not become a source of privacy concerns. Any alias used in a faster payments system has the potential to evolve into a national identity. Once an alias becomes a national identity, offering a search feature becomes concerning because of the potential fraud and privacy issues. (Consider the Social Security Number as an example of this issue.) Regardless of whether a national directory service is included in any action taken with regards to the proposal, an RTGS system implemented by the Federal Reserve Banks should still support traditional identification methods such as the routing and account system in use today.

In conclusion, the Federal Reserve Banks are uniquely positioned as the only entity in the United States that can bring an RTGS system to the public in a timely and ubiquitous fashion. The proposed RTGS system and liquidity management tool should be approved and implemented as soon as reasonable with services, such as the national directory, included based on market demand.