

December 11th, 2018

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Secretary
Board of Governors of the Federal Reserve System
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Re: Docket No. OP-1625

Icon Solutions welcomes the opportunity to submit this comment letter to the Board of Governors of the Federal Reserve System in response to the request for comment regarding potential Fed actions to support interbank settlement of faster payments.

Icon Solutions applauds the Fed's leadership in catalyzing and supporting industry dialogue about potential improvements to the U.S. payment system. Icon solutions had been an active participant in that dialogue, including as a member of the Faster Payments Task Force ("FPTF"), the Governance Framework Formation Team ("GFFT") and the Faster Payments Council ("FPC"). Icon solutions is also active in enabling financial institutions outside of US to take advantage of the instant payment rails be they provided by bank owned clearing houses, Central banks or other arrangements. It is with this global view that Icon solutions responds to Fed's request for comments.

1. Is RTGS the appropriate strategic foundation for interbank settlement of faster payments? Why or why not?
 - We would suggest a different name. Although RTGS is technically correct it is too easily confused with FedWire and this really is a separate service offering.
 - I think experience shows that DNS is not the right strategic foundation for all the reasons Fed already articulated in its paper. RTGS is a right technical solution because it is capable of the following:
 - a) Allow institutions to minimize the utilization of scarce liquidity.
 - b) Support the real time SLAs now and in the future (i.e. being able to process a settlement request in under 500 milliseconds)
 - c) Require minimal (managing by exception) human intervention/interaction
 - d) Do not reduce the level of safety and security of the US Payments system

With modern technology, RTGS can easily be designed to support objectives b to d. RTGS (from the Central Bank) has the natural advantage over private sector solutions in that the settlement funds included in the reserves and interest calculations. Technically, moving funds from sub-account to sub-account in the Fed is equivalent to moving funds on the ledger of the private operator – so the settlement efficiency should be the same. The relative settlement and operational efficiency would then appear to depend on factors such as the level of pre-funding of the accounts, the tools to automatically replenish/rebalance the accounts when they are running excessively short/long, ability to automatically collateralize exposures, etc.

Therefore RTGS is appropriate strategic technical foundation and with the right operating rules and governance it can be a very strong competitor in the market.

2. Should the Reserve Banks develop a 24x7x365 RTGS settlement service? Why or why not?

Fed consultation paper has in fact presented a balanced case of pros/cons of introducing a new clearing service now (there is no doubt that only the central bank can offer a facility for real time settlement in Central Bank money – and so we will not discuss the settlement component here).

Given that the case is qualitatively balanced, the decision to act now will require a leap of faith; alternatively, the decision can be delayed until more information is available to make a data driven case. This consultation is a laudable first step to gather this additional data.

Our view is that Fed should make their decision after gathering the data rather than taking a leap of faith.

In addition to the data being gathered through the consultation paper, we would suggest that Fed determine if it should initially operate at a loss (a la Venmo, M-Pesa, and most likely ECB TIPS) in order to rapidly build critical mass required for national viability before switching to the cost recovery mode. Anecdotally, it doesn't appear to be the case, but if more comprehensive analysis reveals that such a need exists, Fed would be in a unique position to provide such a service offering/pricing.

Lastly, it should be noted that current practice is to procure the Real Time Infrastructure through the market tender rather than to build. In the interest of the speed to market (and many other benefits), we would hope that Reserve Bank would consider vendor SW offerings in addition to a build option.

3. If the Reserve Banks develop a 24x7x365 RTGS settlement service,

- a. Will there be sufficient demand for faster payments in the United States in the next ten years to support the development of a 24x7x365 RTGS settlement service? What will be the sources of demand? What types of transactions are most likely to generate demand for faster payments?

The research that had been undertaken to date (including that commissioned by the Fed) and the experience of other countries conclusively demonstrates that there is sufficient demand for RTP to become a major payment instrument.

Rather than focusing on the types of transactions (they had been well documented in previous research) I would point to the articulation of the end goal that Fed can make as part of the introduction of the new service.

Some jurisdictions have articulated that the real time infrastructure is superior to the batch one and it is a matter of time before the batch infrastructure is retired. Others had left it up to the market forces. It seems that in the former case (where strong signals are given to the market)

the adoption is more rapid - given that the uncertainty is less, and the solution providers have a better business case that they can pursue more aggressively.

- b. What adjustments would the financial services industry and its customers be required to make to operate in a 24x7x365 settlement environment? Are these adjustments incremental or substantial? What would be the time frame required to make these adjustments? Are the costs of adjustment and potential disruption outweighed by the benefits of creating a 24x7x365 RTGS settlement service? Why or why not?

The adjustment of making the bank back office real time (or providing the appearance thereof) is being done already. Transition from the batch to real time environment is substantial. Transition from one flavor of real time to another is incremental. The time frame to implement the minimal set of adjustments had been on the order of 6-12 months on average per institution (based on recent global experience)

There is no additional disruption to the financial services industry and its customers should the Fed introduce its environment (other than the FIs may need to support one more payments rail variation), so that should not be a consideration.

The only consideration is what effect will this offering have in the industry and economy that is already transitioning to real time – both in the short and long term. For example, will a strong signal from Fed convince the core providers to come up with the innovative offerings to significantly reduce the cost of the back office modernization/integration (which tends to be the dominant component of the project).

- c. What is the ideal timeline for implementing a 24x7x365 RTGS settlement service? Would any potential timeline be too late from an industry adoption perspective? Would Federal Reserve action in faster payment settlement hasten or inhibit financial services industry adoption of faster payment services? Please explain.

* Fed could implement its service in 12-18 months (assuming the usage of the proven vendor solution and implementation partners).

* No timeline is too late (although the competitive dynamics will change and beyond 7 years all is pure speculation). For example, in 5 years Fed can step in to address the long tail of institutions not served by existing providers and to increase competition.

* The effect would depend on the characteristics of the service. If it offers TCO superior to the current market propositions or product features superior to those currently in the market, then it will likely hasten adoption. Otherwise the effect will be either neutral or negative.

* There are areas which are not currently addressed where Fed system can provide immediate value – in interconnecting private sector solutions and being a bridge between domestic US rails and those outside of US. Fielding the system that supports those areas which can also be opened to support domestic real-time clearing should it become necessary seems like a prudent way to both a) have a system ready to go when needed b) provide tangible value in the meantime.

- d. What adjustments (for example, accounting, operations, and agreements) would banks and bank customers be required to make under a seven-day accounting regime where Reserve Banks record and report end-of-day balances for each calendar day during which payment activity occurs, including weekends and holidays? What time frame would be required to these changes? Would banks want the option to defer receipt of such information for nonbusiness days to the next business day? If necessary changes by banks represent a significant constraint to timely adoption of seven-day accounting for a 24x7x365 RTGS settlement service, are there alternative accounting or operational solutions that banks could implement?

Some banks already support 7 day accounting regime for account2account transfers and card transfers. Hence for those, it would be an incremental change to allow real time interbank movement. Since this bar has already been set, others should meet this level of service based on their strategic business case.

A bigger change is transitioning from the business to calendar day in the economy. Although a worthy goal (along with the ability to close the books in real time) there is no immediate need for such a radical step at this time. However, incremental steps in that direction if possible would be welcomed.

- e. What incremental operational burden would banks face if a 24x7x365 RTGS settlement service were designed using accounts separate from banks' master accounts? How would the treatment of balances in separate accounts (for example, ability to earn interest and satisfy reserve balance requirements) affect demand for faster payment settlement?

Ability to earn interest and satisfy reserve balance requirements would make this service more attractive. Introducing automated tools to manage liquidity by policy and to only involve humans in the case of exceptions is an opportunity to improve service levels for all payment products that consume liquidity.

- f. Regarding auxiliary services or other service options,

- i. Is a proxy database or directory that allows faster payment services to route end-user payments using the recipient's alias, such as e-mail address or phone number, rather than their bank routing and account information, needed for a 24x7x365 RTGS settlement service? How should such a database be provided to best facilitate nationwide adoption? Who should provide this service?

* Proxy database is not required but are highly desirable.

* In US the attempts to build these databases as part of the payments offering (Venmo, Zelle) had not resulted in a rapid uptake. In other countries (e.g. Thailand) a central payment database was populated quickly because it was tied to widespread government programs. [e.g. such a directory would be populated quickly if required to receive a tax refund].

* Given the practicalities of the US market and the fact that Google, Facebook, Paypal, and individual banks are the largest holders of the directory information, a federated model with incentive for participation would appear to be a best route to the nationwide adoption.

- * A neutral entity (such as the Fed) would probably be best positioned to bring together the holders of the directory information into the directory federation.
 - ii. Are fraud prevention services that provide tools to detect fraudulent transfers needed for a 24x7x365 RTGS settlement service? How should such tools be provided? Who should provide them?
 - * Fraud prevention tools are not required but are highly desirable to provide cross FI view. In fact they would be highly desirable across all product silos – as fraudsters are known to use multiple rails to commit the fraud.
 - * The operator of the RTGS service should provide the tools and make the results available to the banks in the transfer for actioning and reporting back.
 - iii. How important are these auxiliary services for adoption of faster payment settlement services by the financial services industry? How important are other service options such as transaction limits for risk management and offsetting mechanisms to conserve liquidity? Are there other auxiliary services or service options that are needed for the settlement service to be adopted?
 - * Proxy database is desirable but not essential. There are many examples of successful schemes where convenience addressing is done outside the central scheme. Ditto for Fraud prevention.
 - * Transaction limits are like training wheels. There are jurisdictions which left the limits to the banks without any adverse effects. However, in the interest of interoperability it would be good to agree on the national receive limit (even if infinite) and then allow each FI to define the send limit based on its risk tolerance.
- g. How critical is interoperability between RTGS services for faster payments to achieving ubiquity?

The work of Faster Payments Taskforce identified interoperability as critical to achieving ubiquity in the multi-operator environment. We support that. Moreover, we would recommend that beyond the technical interoperability the wider aspects of the common rule book, governance, handling of value added services that are specific to a given solution be addressed as well.
- h. Could a 24x7x365 RTGS settlement service be used for purposes other than interbank settlement of retail faster payments? If so, for what other purposes could the service be used? Should its use be restricted and, if so, how?
 - * This service can be a contingency in case ACH or Wire services experience a prolonged outage.
 - * This service can be a technical foundation on which to offer existing services (e.g. check clearing is just a real time message with an image attachment)
 - * This service may strengthen USD position as the world's currency by allowing dollar denominated accounts to be actioned in the non-US time zones.
 - * This service may be beneficial to reducing FX risk by simplifying (and relaxing) the CLS time-in payments
- i. Are there specific areas, such as liquidity management, interoperability, accounting processes, or payment routing, for which stakeholders believe the Board should establish joint Federal Reserve and industry teams to identify approaches for

implementation of a 24x7x365 RTGS settlement service?

Fed should focus on areas where it is in the unique position to bring together stakeholders to achieve outsize gains to the industry. We believe that interoperability, accounting process and liquidity management are the 3 areas where Fed can take an industry leading role.

4. Should the Federal Reserve develop 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, whether those services are provided by the private sector or the Reserve Banks? Why or why not?

Yes it should. Such a tool will promote competition by allowing other private operators to enter the market as well as allowing existing business processes that currently happen during bankers' hours (e.g. ACH) to take place over the weekend as well.

5. If the Reserve Banks develop a liquidity management tool,
 - a. What type of tool would be preferable and why?
 - i. A tool that requires a bank to originate a transfer from one account to another
 - ii. A tool that allows an agent to originate a transfer on behalf of one or more banks
 - iii. A tool that allows an automatic transfer of balances (or "sweep") based on preestablished thresholds and limits
 - iv. A combination of the above
 - v. An alternative approach

We would advocate for the 3 above.

- b. Would a liquidity management tool need to be available 24x7x365, or alternatively, during certain defined hours on weekends and holidays? During what hours should a liquidity management tool be available?

Although it should be designed for around the clock operation, the tool can initially be made available only during certain times (e.g. to coincide with the published settlement/usage windows of the settlement agents). Clearly if it is being used as an integral component of the 24x7 RTGS offering, it must be available continuously.

- c. Could a liquidity management tool be used for purposes other than to support real-time settlement of retail faster payments? If so, for what other purposes could the tool be used? Should its use be restricted and, if so, how?

It could be used for any interbank money movements – e.g. NACHA settlements. It should be restricted by membership – same as all other services.

6. Should a 24x7x365 RTGS settlement service and liquidity management tool be developed in tandem or should the Federal Reserve pursue only one, or neither, of these initiatives? Why?

* We would recommend replacing "developed" with "offered" to allow the flexibility for the buy vs. develop analysis.

* As the case and benefits for the liquidity tool are clear and the effort (at the current stage) seems modest, it would make sense to lead with it and move to RTGS when the data supports it.

7. If the Federal Reserve pursues one or both of these actions, do they help achieve ubiquitous, nationwide access to safe and efficient faster payments in the long run? If so, which of the potential actions, or both, and in what ways?

Liquidity tool will promote safety and efficiency of settlement in the private and bilateral

arrangements. It can also potentially facilitate the technical aspects of interoperability. If the private sector solutions are unable to achieve ubiquity and efficiency in the market in the reasonable (3-4 years) time frame, then offering a superior (in some way) 24x7x365 RTGS service will be necessary to address the underserved segments and to achieve efficiency through competition.

8. What other approaches, not explicitly considered in this notice, might help achieve the broader goals of ubiquitous, nationwide access to faster payments in the United States?
GFTT (and soon to be launched FPC) have collected a list of recommendations to foster ubiquity. Continuing to provide strong support to the work of this industry group will be helpful.

9. Beyond the provision of payment and settlement services, are there other actions, under its existing authority, the Federal Reserve should consider that might help its broader goals with respect to the U.S. payment system?

If Fed chooses to go forward with RTGS solution, it might consider a) creating a sandbox for incubating innovative services based on real time payments b) Facilitating the dialogue with other operators and regulators around the provision of x-border real time services.

Anything that Fed can do to facilitate access to the cores by the 3rd party solution providers would increase competition and promote faster adoption.

It had been frequently observed that real time payments, universal digital identity, open banking/open API are mutually enabling the success of the others (e.g. see examples of India up Aadhar and UPI). Therefore, as a leader and a catalyst it would be appropriate for the Fed to bring a spotlight on those topics as well.