

# JPMORGAN CHASE & CO.

**Gordon Smith**  
Co-President and  
Chief Operating Officer

December 14, 2018

Ann E. Misback  
Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue N.W.  
Washington, DC 20551

RE: Docket No. OP-1625; Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments

Dear Ms. Misback:

JPMorgan Chase Bank, N.A. ("JPMC") appreciates the opportunity to respond to the Federal Register Notice and request for comment issued by the Board of Governors of the Federal Reserve System ("FRB"). JPMC is a strong supporter of real time payments in the United States and globally. We have made significant investments in the U.S. private sector real time payment networks and are currently using them to provide innovative payment services to both retail and corporate customers.

Our firm believes that both public and private sector stakeholders have a responsibility to collaborate on the development of the nation's emerging faster payments / real time payments ecosystem. We agree with the goal of ubiquitous access to safe, efficient and secure real time payments. We also recognize that there can be different paths to bring the industry to this desired end state.

Set forth below are our views on two potential services discussed in the request for comment:

1. **Proposed 24 x 7 x 365 Liquidity Services ("Fed Liquidity Service")** - which JPMC fully supports
2. **Proposed 24 x 7 real time settlement and operating services ("Fed RTGS Service")** - which JPMC does not support for reasons set forth below

## **1. Proposed Fed Liquidity Service**

JPMC supports the development of a liquidity management tool. Several alternatives are suggested in the Federal Register Notice to provide this functionality, including a service based on the existing National Settlement Service ("NSS") or involving individual bank-initiated transfers between defined accounts, which would function much like the existing Fedwire Funds Service.

It is our view that, instead of developing a new tool for transferring liquidity between Reserve Bank accounts, the FRB and the industry should assess the possibility of extending the Fedwire Funds Service operating hours to include weekends, U.S. holidays and additional evening hours on business days. With

this additional availability, Fedwire Funds would be an effective channel for transfers between Reserve Bank accounts in support of real-time interbank settlements of faster payments.

Recognizing that most banks in the U.S. may not want to staff their Fedwire Funds operations areas on weekends, holidays and nights, the automated liquidity transfers described in the FRB proposal should also be considered. As we understand that proposal, funds would be transferred automatically from a bank's FRB master account to maintain a specified balance in the bank's dedicated faster payments settlement account.

Further, while the availability of the Fedwire Funds Service during these extended hours could be limited to bank-to-bank transfers for the purpose of managing faster payments positions, we believe that the extended hours could also be useful for executing funds transfers for customers and banks. In fact, there has been much "brainstorming" within the wholesale payments community on the potential value of extending the hours of the Fedwire Funds Service so that U.S. banks that provide U.S. dollar clearing services to global correspondents and multinational corporations can support their clients' payment needs during weekend and U.S. holiday periods. Currently, these payment services are provided by off-shore service providers.

The extension of the Fedwire Funds Service for customer transfers is a complex initiative requiring further dialogue between the FRB and the banking industry for a comprehensive assessment. Using an extended hours Fedwire Funds platform as the liquidity management tool for real time interbank settlement of faster payments would become a critical factor in this assessment. We acknowledge that the use of Fedwire Funds (or any other real time interbank settlement capability) as a liquidity management tool could increase liquidity risk for banks that do not have sufficient balances intraday to cover their funding positions, but we feel that this risk is outweighed by the potential benefits of an expanded Fedwire Funds service as the liquidity management tool for faster payments. We note that the resulting capability should support all faster payment initiatives including expansion of Same Day ACH and US Dollar Clearing services. Establishing 24 x 7 x 365 settlement capability available to all payment systems would support the commitments made in the 2015 Federal Reserve System's Strategies for Improving the U.S. Payment Systems and ultimately would provide more flexibility for consumers and businesses to manage their money.

We recommend that the FRB conduct research to determine whether liquidity risk will be a significant issue in connection with utilizing the Fedwire Funds Service for real time interbank settlement services. If the FRB concludes that such risk will significantly increase, an alternative to consider is enhancement of the National Settlement Service to provide for scheduled or "on demand" file submissions to settle real time positions throughout the processing day and into the evening during non-standard hours, as well as during weekends and U.S. holidays.

## **2. Proposed Fed RTGS Service**

JPMC executives have met with FRB officials over the last four years to review the progress of faster payments initiatives in the market. During those meetings, we have cited the contributions banks have made to the Federal Reserve's Faster Payments Task Force's efforts to encourage adoption in the U.S.

We, along with the other Clearing House banks, have also moved forward with the development and implementation of The Clearing House's Real Time Payments network ("RTP Service") to serve the growing demand for faster payments. A key objective of JPMC and the other banks supporting the development of the RTP Service is to make it truly ubiquitous by being available to all banks, large and small. Given that core objective, and the progress of the RTP Service, JPMC representatives have, at each of these meetings, informed FRB officials that we do not see the need for development of another real time payments network. In addition, we have expressed concern that any action by the FRB to develop another network – which would take several years to launch – would delay entry decisions by some financial institutions, thereby jeopardizing the goal of ubiquitous real time payments by 2020.

Our position has not changed. In fact, we believe that there are significant hurdles to interoperability and settlement in a multi-operator environment that would need to be fully assessed and resolved before any decision to develop another network was made. The FRB should not offer a RTGS Service in the U.S. market if it is not fully interoperable with existing real time payment infrastructures.

Finally, as explained in more detail below, we believe that a Fed RTGS Service, even if fully interoperable, does not appear to meet the FRB's criteria for offering new services, in that there is no clear public benefit to developing another real time payments network. We note that the FRB has a longstanding policy not to offer a new service unless the private sector cannot be expected to provide the service "with reasonable effectiveness, scope and equity."<sup>1</sup> There is no indication that the private sector is not satisfying the criteria through the RTP Service.

### **Defining Real time Payments Ubiquity**

At its core, real time payments ubiquity requires universal accessibility by all types of individuals and corporate entities and the ability to deliver payments within seconds. However, we believe that a truly useful real time payments capability will offer much more, including immediate delivery of the full range of RTP ISO 20022 messages, e.g., 1) Payments with acknowledgments, 2) Requests for Payment / Bill and Invoice presentments, 3) Remittance delivery, 4) Requests for Information to both clients and bank customer service, 5) Requests for return of funds messages, and 6) Real time acknowledgments and 24 x7 x365 systems monitoring, connectivity and health messages that support all of the above.

JPMC anticipates that, over time, the nation's banks as well as our clients' product development teams, will create new web and mobile payment applications requiring delivery of the full set of real time messages. The power of real time payments is not about the network itself, it is about developing the beginning-to-end user experience that will drive the adoption of future real-time mobile contextual commerce.

We are concerned that the introduction of an additional real time payments network in the US will not facilitate the development of the capabilities that we regard as essential to success and may be a hindrance. At a minimum, a new network would have to be fully interoperable with the existing private sector networks, the RTP Service and the Early Warning Service LLC Zelle network. We think the FRB may be overestimating the ability of its current network to be interoperable with the existing systems. In the absence of interoperability, ubiquity of access would not be achieved. We encourage the FRB to

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<sup>1</sup> Board of Governors of the Federal Reserve System, "The Federal Reserve in the Payment System," issued 1984; revised 1990, note 4 at 5.

engage in direct discussions with The Clearing House to better assess the likelihood that interoperability, including the full range of messages described above, would be possible.

Notwithstanding the above, we acknowledge the concerns of some industry colleagues that the current environment does not include an operational role for the FRB and their reluctance to use the established faster payments operators. Choice and trust are important parameters and should be addressed by the current real time service providers, the FRB and other industry participants. We would be happy to consider with the FRB how it and the private sector can collaborate in the future to address the concerns of other industry participants.

### **Directory Service**

JPMC does not see the need for the FRB to provide a new "Directory" service to link consumer and small business aliases to accounts. Safeguarding our customers' privacy, security and the money in their accounts is, of course, our primary concern. We believe the Zelle network directory is already secure and available to all banks and credit unions with equal pricing regardless of size or volumes. Hundreds of depositories are members today, and several thousand more are in the integration pipeline for 2019. There would be major security and interoperability concerns with a FRB sponsored retail Directory.

### **Fraud Service**

Both current U.S. real time network providers are already collaborating to offer shared fraud monitoring services. These networks are now open to all U.S. depositories. JPMC believes a single source database is optimal for fraud monitoring. We view these services as critically important to promote safety, soundness and security in the real time payments ecosystem. We also point out that EWS has long been a market leader in providing payment and account based fraud prevention services.

### **The Fed RTGS Service does not appear to meet the Federal Reserve's criteria for offering new services.**

As stated above, we do not believe that there is a clear public benefit to a Fed RTGS Service. In its request for comment, the FRB acknowledged that any service provided by the Federal Reserve would be subject to the longstanding principles and criteria on new services established as part of the Federal Reserve's statutory requirements. These criteria include the requirement that any new or expanded service (a) will achieve full cost recovery over the long run, (b) will yield a clear public benefit and (c) cannot be expected to be provided by other providers with reasonable effectiveness scope and equity.<sup>2</sup>

We do not know whether the Fed RTGS Service would satisfy the first criterion, cost recovery, but we also question whether the remaining two criteria would be met. Even assuming that it would be possible for the Fed RTGS system to be fully interoperable with the RTP Service without increasing risk in the payment system, we believe that a Fed RTGS Service would delay, rather than assist, the goal of near ubiquity by 2020. If the FRB decides to develop such a system, some banks are likely to wait several years for such development and implementation to occur instead of utilizing currently available solutions. Progress toward the goal of ubiquitous faster payments in the US would be halted indefinitely. The FRB should not be hindering adoption of a solution offered by the private sector if the private sector has produced a solution that works. Further, there is no suggestion by the FRB or any other public body or agency that the RTP Service does not have the required effectiveness or scope, or

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<sup>2</sup> Id.

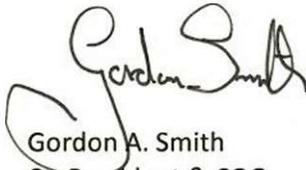
that it fails to offer equitable terms. We believe that the private sector has achieved the goal of offering an operationally viable and stable real time payment system, so that there is no clear public benefit to developing and providing a Fed RTGS Service.

In closing, JPMC is appreciative of the FRB's willingness to consider development of a liquidity management tool to support the settlement of real time payments. As noted, we would favor the expansion of access to the Fedwire Funds Service to provide 24 x 7 x 365 access to settle real time payments as well as other payments activity of member banks, and look forward to working with the FRB on development of a liquidity management tool.

We at JPMorgan Chase believe that a FRB initiative to develop a new service for the real time gross settlement of faster payments would not be beneficial and could be counterproductive to the goal of achieving a ubiquitous real time payments service in the near term. The private sector has invested heavily in the existing private sector initiatives in the belief that they offer the best opportunity to reach the goal by 2020. Rather than standing up separate, competing network capabilities that will surely slow the adoption of emerging real time commerce among the nation's banks, we recommend that the FRB join in discussions with the Clearing House and EWS to collaborate on a single design for the country's future real time payments ecosystem.

Please feel free to contact Roy DeCicco at [roy.c.decicco@jpmchase.com](mailto:roy.c.decicco@jpmchase.com) or at 1-212-552-0731 should you have questions,

Very Truly Yours,



Gordon A. Smith  
Co-President & COO  
JPMorgan Chase Bank, N.A.