

December 14, 2018

Ms. Ann Misback  
Secretary, Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue, N.W.  
Washington, DC 20551  
By email: [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)

**Subject: Federal Register Response docket number OP-1625**

Dear Ms. Misback:

In response to the October 3rd Federal Register Notice seeking public comment on potential actions the Fed could take to facilitate real-time gross settlement of faster payments, we offer responses to the following questions:

1. Why the Reserve Bank's development of an RTGS **would be** a strategic foundation for interbank settlement of faster payments?

Rapid improvements in technology have changed the expectations of consumers and businesses that use networks to send and receive payments. Technological innovation has caused dramatic changes in creation, organization, storage, and sharing of information in nearly every aspect of life; however, critical improvements in payment network infrastructure have lagged behind.

How can financial institutions meet consumer and business expectations if the payment networks utilized by financial institutions to move money among themselves are outmoded? Developing an interbank settlement system for the immediate, safe, secure and efficient transfer of funds among financial institutions should be the bedrock for next generation payment innovations, including faster payments.

A strong, growing, and healthy economy is important for the United States to remain globally competitive. The current foundation for interbank settlement, ACH, initially began in 1974<sup>1</sup> before important ubiquitous technology developments like the Internet, mobile devices, and many other types of technological improvements. In 2017, ACH processed 21.5 billion transactions with a value totaling \$46.8 trillion, an amount that is greater than twice the 2017 Gross Domestic Product (GDP)<sup>2</sup>. Because ACH is a critical network to the U.S. payment

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<sup>1</sup> Source: [History and Network Statistics. NACHA.](#)

<sup>2</sup> Source: [History and Network Statistics. NACHA](#)

infrastructure, its resilience and stability should be maintained while the Federal Reserve develops the next generation of interbank settlement (e.g., RTGS) utilizing more current, reliable and proven technologies.

The Federal Reserve, through the Faster Payments Task Force, was asked to “enhance Federal Reserve settlement mechanisms to support faster payments.”<sup>3</sup> The next generation of payments innovations should be developed on a strategic foundation of a real-time, gross settlement network infrastructure.

## 2. Why the Reserve Banks **should** develop a 24x7x365 RTGS settlement service?

Twenty-five of the nation’s large financial institutions have come together to develop a real-time payment system called RTP, which uses an infrastructure developed by The Clearing House (TCH) and Vocalink (a faster payments software company owned by MasterCard). While RTP is delivering important improvements to the U.S. payment infrastructure and “is open to all U.S. depository institutions,”<sup>4</sup> RTP is perceived by many medium- and small-size financial institutions as being provided by the ‘competition.’ Consequently, many medium- and small-size financial institutions are slow to adopt it and reluctant to join RTP.

The Banker’s Banks also perceive the RTP solution as competitive, suggesting that RTP disintermediates their role with their customers. When considering the number of medium- and small-size financial institutions, together with the Banker’s Banks, a significant number of the financial institutions may choose not to join the network because of RTP’s ownership structure.

In contrast, the development of an RTGS by the Federal Reserve could be provided to financial institutions of all sizes “on an equitable basis and ... in an atmosphere of competitive fairness.”<sup>5</sup>

Setting aside competitive perceptions associated with RTP, payment networks require a significant investment to achieve the benefits of network externalities, economies of scale, and ubiquity. Many businesses (and by extension their customers), including financial institutions, are hesitant to adopt or invest in payment network infrastructure until it reaches meaningful scale with end users and has proven safe, secure and reliable. Because the U.S. payment system is complex—with nearly 12,000 banks and credit unions, millions of business and consumers—achieving meaningful scale and ubiquity requires significant effort for adoption, as well as education and training. Recent history has shown that even payment improvement initiatives backed by the some of the nation's best companies can fail to achieve adoption and ubiquity. For example Merchant Customer eXchange (MCX), an organization formed with the

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<sup>3</sup> See [Recommendation 5 of the Faster Payment Task Force’s Goals and Recommendations](#).

<sup>4</sup> Source: [First new core payments system in the U.S. in more than 40 years initiates first live payments, U.S. Bank among first banks to use The Clearing House's new real-time payments system. News Release, November 14, 2017.](#)

<sup>5</sup> Source: [Strategies for Improving the US Payment System, Federal Reserve System, January 26, 2015, P. 56.](#)

backing of 60+ retailers including 7-11, Bed Bath and Beyond, Kmart, Exxon Mobil, Walmart, Gap, and Olive Garden, and JVL Ventures, LLC, a joint venture between AT&T, T-Mobile and Verizon, was doing business as Softcard and failed to achieve customer adoption of mobile wallets.

The Reserve Banks are in a unique position to develop and deliver an RTGS system that is trusted and can be more rapidly adopted than possible for a private entrant because of the Reserve Banks' existing relationships with financial institutions. In addition, the profit motive of other private-sector providers can incentivize them to design and implement an RTGS that excludes some market participants, while the Reserve Banks' motive should be inclusive of all market participants, including the "unbanked" or "underbanked."

The Reserve Banks should develop RTGS to provide stability to the payments system. Real-time gross settlement systems will become the bedrock for the next generation of payments innovations, including a myriad of applications developed exclusively for RTGS. The Reserve Banks' decision to 'opt out' of providing RTGS could lead to a decline in competitiveness and a less stable payment system if a single, private-sector offering dominates. The Reserve Banks should develop an RTGS because a strong argument can be made that the Reserve Banks are in a unique position to deliver RTGS in a way that: a) promotes the integrity of the payment system, b) improves the payment effectiveness for all financial markets, c) reduces risk associated with payments that are currently based upon a deferred net settlement model and d) if properly designed, improves efficiency of the payment system.<sup>6</sup>

Because the Reserve Banks have a long history of working with TCH, it is more likely that TCH will voluntarily cooperate with the Reserve Banks to integrate with the Reserve Banks' RTGS, whereas TCH may be less cooperative and resist integrating with other, smaller RTGS providers in an effort to remain a dominant player in the market. Market observers may argue that TCH is not the only real-time payment system in the market; however, TCH may be one of the few market participants with a significant number of financial institutions backing its efforts. Furthermore, as the Reserve Banks are aware, other market participants that often get included in the list of real-time payment providers may be using legacy payment rails for settlement, causing confusion for businesses and consumers. It is important to address this confusion over time so that businesses and consumers become aware of how specific payment networks operate and perform against specific metrics (e.g., effectiveness criteria).

#### Timeline for Implementation of an RTGS Service

1. What is the ideal timeline for implementing a 24x7x365 RTGS settlement service?

The Reserve Banks should begin immediately to design and develop an RTGS service, with full implementation to follow as quickly as possible behind a proven pilot that demonstrates that

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<sup>6</sup> [Strategies for Improving the US Payment System, Federal Reserve System, January 26, 2015, P. 56.](#)

the RTGS service can achieve adoption with financial institutions and their customers (e.g., consumers and businesses).

2. Would any potential timeline be too late from an industry adoption perspective?

Yes, there is a point at which it is too late from an industry adoption perspective to begin development and implementation of an RTGS. Arguably, it is “too late” once an RTGS has achieved ubiquitous adoption with a significant number of financial institutions and their customers. The question is: is it too late now to begin development? While TCH has a number of large financial institutions utilizing its service, they have much ground to cover because the vast majority of financial institutions have not adopted their solution. A Reserve Bank RTGS system developed in the next 2-3 years would still have time to achieve significant adoption. The Reserve Banks already have relationships with most financial institutions, either directly or indirectly, and could leverage those relationships to drive adoption. Furthermore, while TCH is one of few faster payments solutions to date that has been able to drive a noticeable number of financial institutions to its service, the chances of another faster payments provider achieving critical mass before the Reserve Banks is small due to the size and complex nature of the U.S. payment system.

3. Would Federal Reserve action in faster payment settlement hasten or inhibit financial services industry adoption of faster payment services? Please explain.

The Reserve Banks’ actions in faster payment settlement will hasten financial service industry adoption of faster payments services. The Reserve Banks’ action of implementing RTGS will provide a strong signal to all financial institutions and their members that the Reserve Banks’ RTGS technology for faster payments services has been appropriately vetted and proven. Furthermore, financial institutions would expect that the surrounding initiatives like directory services and legal and regulatory frameworks would have been adequately addressed as well. Last, there is an argument that a common RTGS system provided on an equitable basis that is easy to integrate with would be more rapidly adopted by financial institutions and other industry participants, rather than potentially having to integrate separately with multiple faster payments solutions.

#### Proxy Database or Directory

1. 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?

The Faster Payments Task Force identified the need for a “directory service that allows payers to send payments across faster payments solutions by using [an alias].”<sup>7</sup> Additionally, a

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<sup>7</sup> See [Recommendation 4 of the Faster Payment Task Force’s Goals and Recommendations](#).

directory service has been identified as a key attribute of next generation payment systems. While reliance on routing and account numbers for payment will be relevant and necessary for some time to come, an opportunity exists to improve the security of next generation payments by utilizing non-sensitive information (e.g., email or mobile number) in connection with routing faster payments. The ability to use non-sensitive information in a routing directory is truly an opportunity for payment system improvement. Such directories have been successfully developed in other countries (e.g., Australia) in connection with their faster payments solutions.

2. How should such a database be provided to best facilitate nationwide adoption?

One of the recommendations that came out of the Faster Payments Task force was to create a work group to recommend an appropriate design for an interoperable directory. The Directory Work Group (DWG), made up of various participants from a wide range of industry perspectives, completed their directory “blueprint” after months of deliberation. Network effects come into play for a directory because it becomes more useful as it is adopted by more participants. The Reserve Banks are encouraged to facilitate development of a safe and reliable directory consistent with the design principles established by the DWG in connection with the development of an RTGS to enable nationwide adoption of faster payments.

3. Who should provide this directory service?

The incentive structure for industry participants is such that they are motivated to keep control of any directory they may develop and, while they could offer interoperability, connection may come at a steep price. By contrast, the Federal Reserve is motivated to provide equitable service to financial institutions and other participants and is better able to facilitate interoperability than an industry participant. Furthermore, if the Federal Reserve undertakes the development of RTGS (and other tools), building a directory service into the design of the system would likely be more time- and cost-effective than relying on the industry to complete a competitively designed system. The Federal Reserve should seriously consider providing a directory service in connection with an RTGS system.

### Fraud Prevention Tools

1. Are fraud prevention services that provide tools to detect fraudulent transfers needed for a 24x7x365 RTGS settlement service?

Yes. The Faster Payments Task Force (FPTF), created to support the Federal Reserve’s Strategies for Improving the U.S. Payment System, identified 36 effectiveness criteria that should be used to evaluate how effective a given payment system is. An entire section was devoted to Safety and Security. A RTGS service developed by the Reserve Banks should be held to the same standard and be required to meet the effectiveness criteria outlined by the FPTF, including considerations around safety and security, making fraud prevention services important for an RTGS service.

## 2. How should such tools be provided?

Tools created should meet the effectiveness criteria for Safety and Security, fit within current regulation and law, and be provided in an equitable manner to entities utilizing the RTGS service. The newly created Faster Payments Council could facilitate an open dialogue between industry participants to gauge their expectations.

## 3. Who should provide them?

Basic fraud information sharing, detection, and prevention services should be included by the Reserve Banks in the design of an RTGS system. Fraud prevention services may be more efficient and less susceptible to vulnerabilities if they are an integral part of the RTGS system.

### Auxiliary Services

#### 1. How important are these auxiliary services for adoption of faster payment settlement services by the financial services industry?

Mechanisms (e.g., API's, standards) that allow the financial services industry to design, develop and implement auxiliary services or value-added services may be more important to the adoption of faster payment settlement services than the design of specific auxiliary services. For example, in payment cards, a number of companies provide transaction fraud scoring and chargeback processing services. While these examples may not be directly applicable to a faster payment settlement service, the ability to provide auxiliary services can enhance flexibility of the faster payment settlement service and most certainly improve adoption.

#### 2. How important are other service options, such as transaction limits for risk management and offsetting mechanisms to conserve liquidity?

It is hard to imagine the design of a faster payment settlement service that doesn't consider transaction limits and other risk management offsetting mechanisms to conserve liquidity and/or provide other important functions.

#### 3. Are there other auxiliary services or service options that are needed for the settlement service to be adopted?

Yes. We envision that a number of auxiliary services or service options would be needed for the faster payment settlement service to be fully adopted or to become ubiquitous. For example, an ideal system would enable developers of accounting packages, treasury software, digital wallets, etc., to interoperate with the faster payment settlement service through their financial institution. Such integration would encourage adoption of the service.

4. How critical is interoperability between RTGS services for faster payments to achieving ubiquity?

We consider interoperability to be **very critical, even essential**, between RTGS services for faster payments to achieve ubiquity. We consider the ability for consumers and businesses to route faster payments between RTGS systems as important as consumers and businesses making a mobile phone call across carriers.

#### Other Uses of an 24x7x365 RTGS Settlement Service

1. Could a 24x7x365 RTGS settlement service be used for purposes other than interbank settlement of retail faster payments?

The primary objective of a 24x7x365 RTGS settlement service is interbank settlement of retail faster payments. If the primary objective is met and the RTGS also works for other purposes, then the uses of the RTGS should not be restricted, especially if other purposes can help achieve adoption.

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?

Yes. We believe the Board should establish industry teams to identify approaches for implementation of a 24x7x365 RTGS settlement service. We encourage the Board to work with the U.S. Faster Payments Council to establish industry teams to identify implementation approaches for liquidity management, interoperability, payment routing and other important areas.

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, the Federal Reserve should develop a liquidity management tool that would enable transfers between Federal Reserve accounts on a 24x7x265 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. The demand for faster payments for financial institutions' customers may be difficult to forecast as the service is growing rapidly. If financial institutions had a liquidity management tool as a part of the RTGS, it would ease their ability to fund customer demand for faster payments without requiring accurate predictions of demand, especially during non-business hours.

If the Reserve Banks develop a liquidity management tool, what type of tool would be preferable and why?

If the Reserve Banks develop a Liquidity Management Tool (LMT) that uses modern technology, it could support a combination of capabilities that optionally allow (or require) transactions such as:

- The financial institution can originate a transfer from one account to another.
- An agent acting on behalf of one or more financial institutions can originate a transfer.
- Transfers can be performed automatically based on pre-established thresholds.

The LMT should be designed to facilitate availability all times, including weekends and holidays, consistent with the need to support 24x7x365 faster payment settlement services.

The implementation of the LMT could be customized to fulfill the demand for specific capabilities. To ensure a successful implementation of the LMT, initial capabilities and expectations should be limited to supporting faster payment settlement; however, the use of the LTM could adapt over time to support other needs or purposes as well.

We ask the Reserve Banks to undertake simultaneous and parallel efforts to design and develop both an RTGS service for faster payments and an LMT. Development of one without the other will be incomplete and will slow adoption of faster payments in the U.S. The Federal Reserve's action to undertake the development of both an RTGS and an LTM will help the U.S. meet consumer and business expectations and needs for faster payments in the short and long run. Furthermore, it will help the U.S. stay globally competitive in the coming years.

### Broader Goals

What other approaches, not explicitly considered in the Federal Register, might help achieve the broader goals of ubiquitous, nationwide access to faster payments in the United States?

The development and delivery of an RTGS and an LTM is crucial to achieve broader goals of ubiquitous, nationwide access to faster payments. In addition, the Federal Reserve should continue to lead and catalyze improvement by nurturing the U.S. Faster Payments Council. Importantly, faster payments may pose questions for regulators that are not addressed by existing regulations. The Federal Reserve should continue to lead and sponsor conferences and sessions to provide both Federal and State regulators with guidance to address these important questions in a coordinated way.

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?

The Federal Reserve's actions to develop and provide an RTGS and an LTM may provide sufficient momentum to continue to move the industry forward. Without the Fed's actions in the development and delivery of RTGS, the momentum created by the Faster Payments Task Force and the subsequently organized U.S. Faster Payments Council will wane or, even worse, cease.

We appreciate the work of the Federal Reserve to lead and catalyze improvements in the safety, security, speed, efficiency and cross-border capabilities of the U.S. payment system through collaboration with industry stakeholders and the public. Thank you for giving us the opportunity to respond to these important questions.

Sincerely,

A handwritten signature in black ink, appearing to read "W. Bradley Wilkes", with a long horizontal flourish extending to the right.

W. Bradley Wilkes

CEO

Open Payment Network, Inc.