LAWRENCE F. BUETTNER

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

Re: Docket No. OP – 1670

Dear Ms. Misback:

The Federal Reserve's announcement to proceed with the design and development of a real time payment (RTP) solution is consistent with the recommendations of the Faster Payments Task Force. The decision, however, is worthy of comment.

The decision places the Bank in direct competition with the private sector solution developed by The Clearing House (TCH), which is owned by the top 20 banks. The underpinnings of the Bank's decision to proceed was to address the task of connecting 10,000 smaller institutions and the concern of potential market disadvantage for TCH non-member banks. There is sound merit in the Bank's decision to provide a solution to the 10,000 smaller institutions. At the same time, the Bank should approach the design and development of the solution with private/public sector cooperation as a key fundamental governance and design tenant.

Cooperation will be required if RTP is to achieve full market ubiquity. Adoption will be hindered if payers and payees must navigate between two solutions not knowing if a counterparty is a participant in one or the other solution. The likely result of this ambiguity is that businesses will remain with their current payment methods (i.e.: checks, ACH, SWIFT) to avoid any disruption; and as a result, RTP adoption will be slowed to a crawl.

The inclusion of a directory service in the FedNow design has the potential to address ubiquity, interoperability and ultimately adoption.

The Business Payments Directory Association[1] (BPDA), which has since merged with NACHA[2], conducted extensive market research into the adoption of digital payments. The research highlighted the lack of full remittance details as a major impediment for the use of digital payments. Equally as important, the research documented the difficulty of payers obtaining the digital address of payees.

Both TCH and FedNow address the former point through the use of the ISO 20022 remittance standard. Neither solution, however, has a well-articulated definition of the elements of a directory service.

There are five building-block constructs which should be included in the design of a directory:

1. **Payee profile:** in order to best serve both payers and payees, the directory must provide a full profile of a payee. Aside from the static information of name, address, tax ID, etc., the directory must include the payees' payment preferences. Payees in the course of their business designate different payment methods and accounts for specific receivables (i.e.:

[1] The Business Payments Directory Association was originally called the Remittance Coalition, which was sponsored in part by the Federal Reserve Bank of Minneapolis and over 200 bank and business participants.
[2] https://www.nacha.org/content/directories

Fedwire may be required for very large payments, payments may need to be directed to specific depository accounts based on geography, etc.). In essence, the directory is more than a list of bank routing and account numbers. It must be a tool that can be used to facilitate both the accounts payable and accounts receivable functions of businesses.

In order to foster interoperability, the payee profile would include the destination of either the TCH or FedNow platform for payment routing.

2. **Data ownership**: there needs to be a high degree of trust if payments are going to routed relying upon a directory. Both payer and payee have huge stakes in the underlying data: avoiding misdirected payments and the potential consequential damages associated with late payment.

   The payee, however, is motivated to insure the accuracy of the directory in order to maintain an orderly flow of their cash. As a result, the responsibility for the accuracy of the data must remain with the payee. The payee must own the directory data and bear the responsibility for its accuracy.

3. **Data Privacy and Access:** Payees voiced their need to control the access to sensitive payment information. This was a consistent theme in industry focus groups. The information contained in a directory might be both public (i.e.: entity name, address, email, etc.) and private (i.e.: bank routing number and payee account number). Payees should be able to permission a payer for access to the payee's sensitive banking information. Control of access to payment information strengthens the responsibility of the payee and maintains the integrity of the payment process.

4. **Data veracity**: If a directory is to be the "one-truth" for payee payment addresses, the process for inclusion of any data in the directory must engender trust for all users of the data. The accuracy of any data must rise to the level that it is unquestioned. Directories which accumulate a payee's identity and payment details solely through the use of public records derived from artificial or neural search engines does not, in of itself, insure that the data is accurate enough for a payer to send a payment. Independent validation by an accredited trusted third party is essential. Financial institutions, credit unions and payment BPO providers are logical and known entities that can validate data for inclusion in the directory. A minimum validation criteria, similar to that used for AML, needs to be used by every credentialing authority.

5. **Directory of Directories:** the construction of a single monolithic directory housing the data of millions of consumers and businesses is an invitation for a hacking attack by malicious individuals and state-actors motivated to disrupt U.S. commerce. Block-chain technology offers the opportunity to weave together disparate directories from existing providers or new entrants. Many of the largest financial institutions have accumulated payee data for their payments customers. These islands of data can be connected through smart contracts which would ensure only authorized access and yet avoid the creation of a single monolithic data breach target.

   As a result of the activities of the banks and the advent of new technology, it would be redundant and costly for the Bank to replicate the effort to set up an independent directory system and processes. The cost alone to gather, validate and maintain payee data would be prohibitive.

With two faster payment network alternatives, the issue of interoperability will be a paramount concern. Payers will not want to incur the hassle of determining which payment network to send a payment to a payee. Likewise, payers and payees will not want to subscribe to competing directory solutions. Directories will become a necessity, if the ubiquity of faster payments is to be achieved interoperability challenges must be masked from participants.

A common U.S. directory utility makes the most sense for both the TCH and FedNow solution.

As noted earlier, the Business Payments Directory Association made a strategic decision to merge with NACHA. A major consideration in our decision was their recognized role by financial institutions in rule setting and their ability to be a trusted neutral provider. NACHA has progressed with the design and development of a solution which encompasses the design criteria articulated above. The platform will leverage open source technologies, blockchain/distributed ledger technology and standardized Application Programming Interfaces (APIs) developed by NACHA's member-led organization, Afinis Interoperability Standards (formerly the API Standardization Industry Group).

The NACHA sponsored directory is the perfect meeting ground for private/public cooperation.

I strongly encourage the Bank to consider the articulated design criteria and the opportunity to form a private/public partnership for directory services to solve a fundamental industry need which will accelerate the adoption of faster payments.

Respectfully,

Lawrence F. Buettner[3]

[3] Lawrence F. Buettner was the past chair of the Business Payments Directory Association and is a current advisor to NACHA's directory activities.