Bridge Community Bank

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

Via Electronic Submission REGS.COMMENTS@FEDERALRESERVE.GOV

RE: Docket No. OP-1670

Dear Ms. Misback:

The following is offered as our response to the Request for Comments for the FedNow initative.

The Federal Reserve System's role in improving the payment system is now well over 100 years in the making. FedNow will be a major leap forward that will ultimately facilitate a faster and more secure payment experience for all end users, including domestic payments and very soon, across our borders. The 100 plus year process has been incremental, step by step, year over year. FedNow, once implemented and adopted, will be a payments revolution. Still, it too will be incremental. Like any successful revolution, a historical perspective is important.

Sub par check clearing, intentionally created float, lack of choice, geography and the absence of a cohesive US monetary policy demanded that a central bank with regional presence was necessary to fulfill the promise of the developing US economy. Subpar checking was quickly resolved by the newly created Federal Reserve. It was not until the 2004 Check21 Act that float in the paper check system was indirectly but adequately addressed, at least between financial institutions. ACH and more recently Same day ACH was a huge stride forward notwithstanding the majority of large US banks delaying the implementation of same day ACH for years, all to protect other more profitable payment revenue. The Fed's 2013 opt-in same day ACH service, although not widely adopted, set the stage and proved up that even the smallest of banks could initiate and receive a same day ACH. We were one of those.

The Federal Register discusses the Fed's early involvement in electronic payments and referenced a 1972 Federal Reserve electronic transfer pilot as a precursor to the electronic payment. As a matter of fact, the electronic transfer of payments had already been proven up in 1971 under the the US Army participation in the early Joint Uniform Military Payroll System (JUMPS).

See Attachment A that includes excerpts from a 1972 Army Historical Summary. As a US Army payroll processing clerk at that time, converting paper payroll files to electronic, I was directly involved. I was also a recipient of an electronic military payroll deposit in my account at a very small Iowa community bank beginning in August 1971. Prior to that "revolution", if a service member was physically separated from their paper payroll file, they likely would not get paid – sometimes for weeks or months. So the theme of the following comments is based on my view of history that once again, the Federal Reserve is just catching up with a critical solution for a critical need.

An essential element of designing FedNow is to minimize or eliminate systemic risk in the payment system. Only the Central bank settling transactions in central bank dollars can reasonably aspire to that goal. Liquidity tools can enhance the likelihood of good funds and final completion of a real time payment. Those same tools could be implemented now to facilitate existing payment systems that settle in either a master account held at a Federal Reserve or a joint account at the Federal Reserve owned by multiple financial institutions otherwise qualified to hold a master account.

The discussion as to whether a directory service should be an add-on later is misplaced. Building the messaging and validation model from sender to sending FI to the Fed to the receiving FI to the recipient and back within seconds without a directory will be a wasted use of resources that would have to be fixed later and at a higher cost. The design of a directory can be debated, ie., central vs. a directory of directories, but a decision needs to be made as an out of the gate commitment to use what we have learned from existing electronic payment directories and the comprehensive work product through the Faster Payment task force and the related Directories WorkGroup.

Fraud mitigation, early on, should be the obligation of the sending and receiving financial institutions. As volume, data, and experience evolves, the Federal Reserve can leverage that information and add on fraud mitigation and prevention services that financial institutions can share and participate.

Either a real time gross settlement account or a participant share (balance) of a joint account should be eligible for both interest and count towards reserve requirements. A solid reconciliation of ownership interests at the momentary end of day or other periodic measure can be accomplished. Adequate required balances to assure funding for real time settlement should be reasonably predictable given an expectant slow start up process, especially with transaction caps in the early phase.

There was a fair amount of discussion and concern in the request for comment regarding differences between the existing private sector option and the proposed FedNow as to how those difference may impact the competitive, legal and interoperability of the networks or any future networks. There no doubt will be differences in the early phase of finding the path to work together as they have for virtually all other payment systems. Payment law, rules and standards evolve and real time payments and settlement will follow that same track. This may not be easy given the private sector's notable public resistance to the involvement of the Federal Reserve but the market will ultimately force interoperability and standards. The Faster Payment Council is the most logical vehicle to develop those standards and rules. That is yet another reason that our industry needs choice. There was never an option of only one network, if for no other critical reason than to avoid a single point of failure.

Respectfully submitted;

Department of the Army Historical Summary

Fiscal Year 1972

Compiled and Edited
by

William Gardner Bell

CENTER OF MILITARY HISTORY
UNITED STATES ARMY
WASHINGTON, D.C., 1974

The Joint Uniform Military Pay System (JUMPS) was implemented in the Army in fiscal year 1972, 18 months earlier than had been planned. The pay accounts of all active duty military personnel were converted and placed on a central automated pay file located at the U.S. Army Finance Support Agency, Fort Benjamin Harrison, Indiana. Implementation of the system in the Army actually began in June 1971 when the accounts of the finance office serving Army departmental headquarters personnel were placed on the system for the first payday in July 1971. Remaining active Army pay accounts were converted in geographical increments as follows:

AREA	PLACED ON SYSTEM	FIRST PAYMENT
Continental United States	July 1971	August 1971
Europe	September 1971	October 1971
Pacific, Panama, Alaska	October 1971	November 1971

Notwithstanding the fact that the basic system proved to be effective, as demonstrated by a lack of significant system design and programing problems and by the flexibility to absorb the wage and price freeze and the first mid-month pay raise in the Army's history during the critical implementation phase, field components were unable to implement the system effectively. One of the principal problems was the troop withdrawal from Vietnam, with the acceleration in redeployment and the early release of personnel. The loss of trained personnel and high personnel turbulence created a situation in which pay actions were not forwarded to field finance offices in a timely or accurate manner by unit commanders and personnel officers. Field finance officers were unable to maintain document control and quality edits, and a breakdown in operational management led to pay complaints and raised doubts in commanders' minds that their soldiers would be paid accurately and on schedule.

To correct the problems, Department of the Army restructuring teams were constituted and prototype finance offices were established at U.S. troop locations around the world to assist major commanders in the task of reorganizing field finance offices under their jurisdiction to meet JUMPS requirements. Management and procedural training was provided, with emphasis on document control, pay transaction input, and effective use of personnel resources. To offset losses in experienced personnel, a special correspondence course was developed to provide field finance officers with an on-site training capability. Training of new personnel in JUMPS pay procedures was furthered by the use of mobile training teams from the U.S. Army Finance School.

Fiscal year 1972 was thus an important year in military pay history. The Army was the first of the armed services to field a centralized automated military pay system; that system has proved to be both efficient and effective. Further refinements will be made in 1973.

There were developments in the civilian pay area as well during the

year. General functional requirements were developed for a standardized Army Civilian Pay System, a sophisticated, computerized system that will eventually replace over 60 heterogeneous civilian pay systems currently in use at 110 installations throughout the Department of the Army.