



November 7, 2019

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

Re: Docket No. OP – 1670 Federal Reserve Actions to Support Interbank Settlement of Faster Payments

We appreciate the opportunity to provide comments to the Board of Governors of the Federal Reserve System on the initial design and features of the newly announced FedNow real-time gross settlement service for retail payments. As reflected in our comments late last year, Target strongly supports the creation of FedNow to be operated by the Federal Reserve.

Background

Target is a U.S. based retailer that offers high quality, on-trend merchandise at discounted prices in more than 1,800 clean, spacious, consumer-friendly stores and through its digital channels. Target employs nearly 350,000 team members. From our headquarters in Minneapolis, Minnesota and through our distribution centers and stores, we seek to operate our supply chain with speed, efficiency, and operational excellence to meet consumer demands. Target processes over a billion transactions annually, giving us broad insights into the payment system. Target has been working with the Federal Reserve for several years to improve payments, participating on the Faster Payments Task Force and as a Steering Committee leader on the Secure Payments Task Force. More recently, Target joined the Faster Payments Council (FPC) as a founding member and serves as a member of the FPC's Board and Executive Committees.

Target strongly supports the Federal Reserve's decision to develop and operate the FedNow service. We believe the Federal Reserve is the only service provider that can achieve nationwide reach within a reasonable timeframe by connecting financial institutions through existing master accounts using the FedLine service. We agree with the benefits of the Federal Reserve's participation as described in the announcement: promoting ubiquity, resiliency through redundancy, competition increasing innovation, and improving quality and lowering prices. Target recognizes the Federal Reserve as an experienced payment transaction operator and views the Federal Reserve as the preferred provider of a faster retail payments solution that could transform our guests' shopping experience. We are hopeful that FedNow will be launched before 2023, but it is also important that the solution be well-designed, secure, and supported by services that will encourage adoption and use in the US market.

The Federal Reserve notice and request for comment discussed existing authority of the Federal Reserve, the rationale and precedent for the decision(s), and impactful feedback garnered from comment letters, and

invited comment on concepts under consideration as the new FedNow system is developed. The following comments reflect Target's thoughts on a few key aspects under consideration.

Consumer Interest

Target's customers, who we refer to as guests, engage with Target in our stores and across all digital channels. Of the more than one billion Target transactions per year, slightly fewer than half come directly from consumers' demand deposit accounts. We receive negative feedback from guests about the length of time it takes to complete these transactions, whether it is a purchase, exchange, or return. Consumers have experience using peer-to-peer payment options and don't understand why the same speed and efficiency currently do not exist for consumer-to-business transactions. Target has been a leader in adopting faster and more secure payment options, and we believe that establishing a real-time payment system with the Federal Reserve as the operator is the best opportunity to provide another payment option for our guests that will be equitable for all industry participants and available to the largest number of Americans.

Interoperability

Target supports the Federal Reserve's goal of achieving nationwide reach in support of faster payments. Because there are different possible paths to this goal, Target does not view interoperability as an essential day-one feature. The Federal Reserve is unique among operators in that existing structures give it the ability to reach every bank, no matter the size. FedNow can quickly provide a real time payments solution between banks, analogous to the FedWire funds service. Target believes that interoperability is an important goal, but should not be a primary goal if it will introduce meaningful delay in the launch of FedNow. That said, if beneficial and achievable, Target would welcome the eventual migration to a FedNow solution that is interoperable with other payment services.

The Faster Payments Council

We recognize and share the Federal Reserve's goals in establishing the Faster Payments Council (FPC) as a broad stakeholder organization to help resolve difficult questions related to faster payments. There was a significant amount of Federal Reserve and industry engagement that led to its creation, from the Faster and Secure Payments Task Forces through the Governance Framework Formation Team. While the Federal Reserve could draw on the FPC in a variety of ways, we believe it should view the FPC as a full partner in key decisions. At this juncture, that means making the FPC the focal point for industry engagement to answer key questions related to interoperability, directory services, fraud prevention services, potential expansion of the FedWire funds service, and National Settlement Service operating hours. Whether it is interoperability, security, or other operational issues, Target believes that the FPC should be the entity that the Federal Reserve looks to for guidance in developing a solution that balances the interests of all stakeholders.

Directory Services

Target believes that directory services are a necessary and important early feature of the FedNow service. A key consideration for a directory service is to avoid the need to share account credentials to validate a transaction. A directory service also should allow for multiple aliases or tokens that are restricted by use case, further mitigating the potential for fraud. The Federal Reserve presented three scenarios for feedback: 1) banks connect individually to private-sector directories, 2) the Federal Reserve creates a single link to private-sector directories, or 3) the Federal Reserve develops its own directory. Target has a strong preference for the latter two models, with the Federal Reserve taking a leading role in the development of any directory service. The Federal Reserve is poised to be a single integration point for both existing and

developing account credential systems and to set standards or rules around how an entity can engage with a directory service. In particular, we are conscious of the anti-competitive outcomes of private payment card directory services that currently exist atop the Federal Reserve's infrastructure. Our hope is that with Federal Reserve involvement and oversight, this history will not be repeated with FedNow, and by extension with faster payments in general.

Request for Payment Message

Target believes that the Request for Payment Message is a critical day-one attribute of FedNow. We appreciate the flexibility of the ISO20022 standardized approach to messages and believe that standardizing a request for payment message, or prompt for payment through FedNow, will encourage adoption across the fragmented merchant end-user landscape. A Request for Payment Message has a similar functional outcome to a debit pull transaction, while providing the added security of direct accountholder participation (as in the credit push construct). The bank or other determined decision maker can authenticate the account holder utilizing appropriate security measures. Without this feature, our concern is that FedNow will be largely relegated to peer-to-peer payments and business-to-consumer push payments, like payroll, leaving the large consumer-to-business market for goods and services underserved. Target does not want FedNow limited to only select use cases. In addition, when combined with strong end-user authentication, the Request for Payment mechanism would alleviate the risk of fraudulent requests for payment via false billing, social engineering or other means.

Fraud Services

Target is encouraged by the Federal Reserve's description of FedNow and how it will function. As described above, we believe that the credit push mechanism requiring the accountholder to actively send a payment is more secure than debit pull retail payment solutions, including payment cards. The \$25,000 initial limit should help mitigate fraud, although we expect pressure to raise that limit over time. The payee account validation in the FedNow process description also adds security. The finality of the payment will encourage caution by the accountholder, and the immediacy and certainty should also eliminate many of the spurious disputes we see through the payment card chargeback process. We believe a Directory Service would add security to the extent it avoids the need to broadly share underlying account credentials. But it is essential that financial institutions, their agents, and Directory Service providers authenticate the payer. We also believe it is important that the Federal Reserve encourage information sharing and work with the industry to develop new tools and utilize existing tools to mitigate fraud in real-time payments.

Pricing

On pricing, Target agrees with the Federal Reserve's analytic approach to view cost-recovery over a long horizon. It will take time to build this new retail payments service in a market accustomed to legacy payment services, and our experience has been that consumer payments behavior is slow to change. Using a shorter timeframe for cost recovery would result in higher initial fees, which is self-defeating to the extent it slows end-user adoption.

Target recommends that the Federal Reserve define a small dollar transaction threshold, charging a per transaction fee above that limit and an ad valorem fee below that limit. In terms of price structure, a per transaction fee would be preferable to an ad valorem fee, and is largely used in FedWire Funds, FedACH and regulated debit card pricing. However, this approach would hinder FedNow in the market for small dollar transactions because the cost relative to the transaction amount becomes prohibitively expensive. The Federal Reserve should consider alternatives for small dollar transactions that overcome this problem.

In addition, we think it is important to put structural limits on end-user pricing. We understand that if the Federal Reserve recovers its costs through fees to financial institutions, those financial institutions may expect to set a price for their end-users to enhance their own business models. But FedNow is simply a modernized means of facilitating settlement between the sender and recipient. Recipient fees have not been a feature of checks, traditional ACH or wire transfers, all of which settle at par. Each party bears its own costs. In contrast, the global experience with payment card interchange fees has been decades of litigation, legislation and regulation. The FedNow service, and supporting services like directories, can and should be designed to avoid a similar outcome.

Competitive Impact

Target does not believe that FedNow will have a material adverse impact on private-sector real-time payments solutions, notably Real Time Payments (RTP), as developed by the Clearing House. The RTP will have been in market for more than seven years before the launch of FedNow, which is an ample head start to offset any structural advantage that FedNow may enjoy. To the extent the Federal Reserve concludes that FedNow may have a material adverse impact on RTP or other private-sector services, the extension of FedWire and NSS service hours, possibly to 24x7x365, should address the perceived disadvantage.

In closing, thank you for allowing public comment on this proposal. We want to reiterate Target's support for the construct of FedNow. We look forward to providing additional feedback as the system is developed.

Sincerely,



Corey Haaland

Senior Vice President & Treasurer

Target Corporation