



The Merchant Advisory Group (MAG) appreciates the opportunity to comment on the Federal Reserve Banks' ("Fed") new round-the-clock real-time payments and settlement service FedNow.

Founded in 2008 by a small visionary group of merchants in the payments field, the MAG is dedicated to driving positive change in payments through multi-stakeholder collaboration. MAG represents 150 of the largest U.S. merchants, which account for over \$4.4 Trillion in annual sales at merchant locations across the U.S. and online. Roughly \$3.9 Trillion of those sales and over 113 Billion card payments are electronic, and MAG members employ over 14 million associates.

MAG merchant members support the creation of FedNow and are eager for the new service to effectively support the full set of payments system stakeholders and the broader U.S. payments system. During the announcement regarding the creation of FedNow, the Board of Governors ("Board") said they anticipate the FedNow Service will be available in 2023 or 2024. Merchants believe it is imperative that the design and implementation of the new service are carefully executed, and that the Fed move as quickly as possible while allowing for a thorough and detailed design and implementation. We also strongly encourage that merchants' input into the design be taken into consideration as the Fed contemplates how to best create and execute the new service.

MAG and its merchant members have taken a keen interest in the Fed's efforts around faster payments and have been involved in the various steps along the way to the announcement regarding the creation of FedNow. MAG participated in the Faster Payments Task Force (FPTF) and Governance Framework Formation Team (GFFT). Currently, MAG CEO John Drechny sits on the Board of the U.S. Faster Payments Council (FPC), alongside representatives from two MAG member organizations. MAG urges the Fed to engage the industry through the FPC, which includes all stakeholder groups in the payments system and aims to align their interests regarding faster payments. Merchants have an equal vote in the FPC, and we encourage the Fed to also work directly with merchants, through the MAG and through other groups that represent merchants' interests, such as business-to-business suppliers, as well as aligned stakeholders, such as consumer groups, in its development of FedNow. MAG's involvement with the Fed and FPC stems from merchants' perspective that competition, choice, transparency, innovation, safety, security, and balanced liability should be cornerstones of the U.S. payments system.

Merchants prioritize the customer experience throughout the consumer's interaction with a retailer regardless of channel. The payments transaction is one component of the customer experience, and merchants strive for their customers to have seamless checkout. Friction during a transaction leads to poor customer experience and even cart abandonment. Merchant engagement during the design of FedNow is critical to developing a service that provides solutions for a variety of use cases that impact merchants and their customers.

MAG supports the Fed's efforts in developing and operating a new service to facilitate a real-time payment and settlement service. Merchants believe that the Fed's involvement will ensure competition for U.S. real-time payment services and offer merchants choice as they weigh their payments acceptance options. As the Fed considers the best ways to develop and build the new system, merchants believe interoperability is important with the goal of reaching ubiquity as soon as reasonably possible. Interoperability will pave the way for FedNow to introduce a well-built service sooner. MAG also encourages the Fed to develop a complete solution that includes not only the payment rails, which are the payment services or payment networks that move money from a payer to a payee, but also factors in access to the rails, the timeliness and speed of transactions, and security and safety for system stakeholders.

The Fed has moved trillions of dollars through its current ACH system for decades. The new FedNow service will complement the existing service and serve as a technology upgrade in which the existing operator and system can accommodate faster movement of funds and information to help make the economy more efficient. The Fed is in a unique position to provide this service at a reasonable cost and is one of the few entities that has the needed connections to the United States' thousands of depository institutions.

An important factor for the Fed to include in their development of FedNow is fraud mitigation. Fraud is growing in the United States, and merchants seek payments solutions that lessen fraud risk. MAG encourages the Fed to consider services that alleviate fraud risk while developing FedNow. Merchants believe the Fed should prioritize solutions that authenticate the payee to ensure the payment reaches his/her account and the payer to ensure the sender is the actual owner of the funds being sent. It is essential that any liability assessment framework must be very carefully tailored to ensure that the appropriate incentives exist for ensuring a secure environment.

The specification the Fed uses to move transactions between parties is an important consideration as the Fed evaluates interoperability. The MAG supports the use of ISO 20022 as the framework for the specification. Through groups like the FPC, merchants encourage the Fed to engage with the industry in outlining how the specification is implemented to ensure common standards are developed and maintained. Without common standards, inefficiencies could be created as stakeholders must then map to several different versions of what could be a single specification. As parties can choose to use the different data fields in varying ways, it is important that a common standard is developed. All parties can rely on the data, reducing inefficiencies with common standards.

The real-time payment services optionality enabled by FedNow and other services will spur further innovation in payments, which is critical during this time of disruptive technological

advances. This service will create competition and provide a meaningful option for merchants and banks to settle transactions quickly. Consumers interact with merchants 24 hours a day, 7 days a week, 365 days a year and they expect to send and receive payments instantly. The Fed's involvement in real-time payments and settlement is an important component of meeting these expectations. Because faster payments present such a powerful opportunity for the entire U.S. economy, working swiftly to achieve ubiquitous reach, thus fostering adoption, for faster payments is critical. For that reason, we believe it will be important for FedNow to develop in a fashion that is interoperable with other analogous services in the marketplace. Interoperability will also allow competition to flourish in the market, as different solutions vie for transactions that may be initiated and received by different operators, providers or networks.

There are benefits beyond competition, too. The new service should increase reliability for industry stakeholders and their customers because it will increase the speed of transactions and help create resiliency in the payments system. Electronic transactions are increasing in the United States, and it is critical to our economy that electronic payments work 100% of the time. It is unlikely, however, that a 100% success rate for any single system will be a reality due to human error and system malfunctions. Redundant and diversified paths to consumer and business accounts will help defend against these inevitable system failures, leading to the completion of more payments. As one of the few institutions that has the ability to reach every depository account in the country, merchants welcome the Fed's forthcoming role as an operator in real-time payments and settlement, and urge the Fed to ensure that FedNow operates with at least two independent processing platforms and that each platform have redundant instances at geographically distant datacenters. If architected properly, FedNow will provide system redundancy despite unplanned outages or disastrous events.

FedNow will bring about innovation through the Fed's existing relationships with financial institutions and their ability to compete in offering a real-time payments and settlement service. The barriers must be reduced in order for innovation and competition to thrive. Additionally, a diverse set of stakeholders, including new and emerging players, is interested in the Fed's development of FedNow. Stakeholders who represent varying points of view will provide fresh solutions to challenges that have encumbered previous payments products' development and deployment.

The MAG also supports the Fed evaluating its current requirements for direct participation in the payments system. As payments move in real time, much of the counter-party risk is removed from the system. With this change in risk, merchants implore the Fed to examine its requirements for direct participation in the payments system, particularly in regards to non-financial messages such as requests for payment. Merchants also urge the Fed to develop new standards for participation while ensuring the protection of all parties. MAG believes greater participation will lead to improved transparency and efficiency for end-users in the system.

Payments in the United States are evolving more slowly than in other markets around the world. FedNow provides an opportunity for the Fed, along with the private sector, to promote innovation, competition, transparency, and choice to payments system stakeholders, while earning a responsible rate of return. Merchants believe this will contribute to advancing the United States' position in innovative payments.

FedNow will be developed with credit push messages. Merchants encourage the Fed to also consider creating FedNow to accommodate request for payment messages. Allowing for request for payment will provide an avenue for the two parties of a transaction to identify each other instantly through the system prior to either party sending an irrevocable payment. If the Fed creates the new service with request for payment, it will allow for a single mechanism that all merchants can use. This will contribute to easier adoption of the new service. In terms of pricing for this feature, our view is that both the sender and the receiver derive equal value from the request for payment, and therefore the appropriate model would involve both the sender financial institution and the receiver financial institution paying equally for the service upon consummation of the payment.

MAG appreciates the opportunity to comment on the Fed's proposed role in a directory service. Merchants believe a directory service is important to encourage consumer adoption and usage. MAG encourages the Fed to build their own service. A directory service will ease enrollment in FedNow and make transacting with the service easier. Merchants also suggest that the Fed allows vetted third parties to contribute to the directory service for the benefit of all users. Additionally, the use of directory services can minimize the use of sensitive account credentials in the payment process.

In developing a directory service, MAG also urges the Fed to require minimal sensitive credential sharing, and only when absolutely necessary. If credentials or data are shared, it is essential that the data is protected, whether at rest or in transit. With security top of mind, merchants also request the Fed consider giving consumers access to their directory information to ensure its accuracy and to establish default accounts for receipt of faster payments.

Merchants support the Fed's position to seek cost recovery over a longer time horizon. MAG believes the fees paid should be balanced. When the Fed establishes fees, all parties to the transaction should pay fairly.

The use cases for the new FedNow service should not be limited. The Fed has a unique opportunity to open up the service to a wide variety of use cases for faster payments and real-time gross settlement. Merchants are eager to see competition and transparency in innovative payments solutions that are not tied to traditional systems, services and products.

MAG supports the development of FedNow and appreciates the Fed's efforts to carefully consider their role in real-time gross settlement and faster payments. Merchants are encouraged that the introduction of FedNow will help advance adoption of faster payments in the United States. MAG looks forward to continuing our work with the Fed and payments system stakeholders to bring about competitive, transparent, and secure solutions that enhance and create efficiencies for customers' experiences and merchants' businesses.