



BANKERS' BANK OF THE WEST

November 7, 2019

Via Email: [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)

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

Regarding Docket No. OP-1670, Interbank Settlement of Faster Payments

Dear Ms. Misback;

Bankers' Bank of the West has been a partner to hundreds of community financial institutions for over 39 years, providing solutions across all U.S. payment systems, allowing those financial institutions to remain competitive as the market evolves, while maintaining a proud legacy as a champion of community banking. Community financial institutions have relied on bankers' banks, corporate credit unions, and other correspondent service providers (collectively "correspondent providers") as trusted partners and service providers. At present, Bankers' Bank of the West is one of 12 bankers' banks in the nation that collectively serve the correspondent banking needs of approximately 5,000 community financial institutions across the U.S. A significant part of the role played by Bankers' Bank of the West with its customer community financial institutions is in providing settlement services and providing access to payment systems, including image cash letter, wire transfer networks, and ACH origination.

As such, Bankers' Bank of the West is supportive of the continued evolution of interbank 24x7x365 real-time gross settlement in support of faster payments across all payment systems in the U.S. as proposed in the August 9, 2019 Federal Register Notice ("Notice").

**Introduction**

Bankers' Bank of the West assists its customer financial institutions in managing credit risk and liquidity through avenues such as daily transaction settlement, pass-through reserves, excess balance account agent with the Federal Reserve, and overnight Federal Funds agency.

From the perspective of a fully engaged participant in the Federal Reserve's Faster Payments Initiative, Bankers' Bank of the West endorses working with the Federal Reserve for real time payments and recommends its inclusion in an operational role. The involvement of the FRB, with its unparalleled role in ensuring a safe, flexible and stable financial system, is believed necessary to ensuring fairness and maintaining public confidence in the U.S. payment system.

The emergence of faster payments is of interest to Bankers' Bank of the West's customer community financial institutions, which principally operate in the Rocky Mountain, Southwest, and Great Plains regions – 24% of states in the U.S. These customers are diverse in terms of asset size, charter type, geographic location and business focus.

### **Comments on Actions to Support Interbank Settlement**

There are many considerations regarding the Federal Reserve's involvement in payment systems. Efforts in realizing ubiquitous, secure, faster payments have been ongoing for some time, and there remains a significant knowledge gap for many smaller financial institutions that may not have had the resources or awareness to dedicate to this topic. Further, community financial institutions currently have no meaningful role in rule-making, pricing, and interoperability determinations.

This comment letter is representative only of Bankers' Bank of the West, however we believe the general opinions of community financial institutions are reflected in the following sections.

#### **Interoperability of FedNow**

The Federal Reserve already has connections with all financial institutions and processors, providing payment service to more than 11,000 financial institutions across the U.S. It also serves as the only provider of interbank settlement functions for every financial institution. This reflects a benefit to all participants in the payment system by limiting monopolistic and/or quasi-closed network systems that inhibit the ubiquity of faster payments.

There is precedent for establishing interoperability with private sector systems for ACH transactions. In this instance both the Federal Reserve and the Electronic Payments Network owned by The Clearing House provide ACH payment networks, allowing for widespread access to this payment network and reasonable costs for participants.

Expanding this to not only interoperability between the Federal Reserve and private sector, but allowing for the integration of FedNow with existing payment systems allows payments to be both originated and received in a fashion determined by the originator and recipient.

#### **Migrate National Settlement Service and Fedwire® Funds Service to 24x7x365**

The Notice states that the FedNow Service would "establish a 'business day' by setting opening (beginning-of-day) and closing (end-of-day) times (in eastern time). This business day will align with the business day of the Fedwire® Funds Service" ("Fedwire"). Bankers' Bank of the West's customer community financial institutions operate in the Central, Mountain, and Pacific Time Zones. Currently, Federal Reserve service deadlines limit access of western financial institutions to some of the evolutions of existing payment systems. We believe ability to process and settle transactions between the close of day and beginning of day junctures, delivering 24x7x365 continuous processing will have a positive impact on these financial institutions.

As interoperability is established, further extending the National Settlement Service ("NSS") and Fedwire operating and processing hours to 24x7x365 facilitates payments, including a third Same Day ACH window, providing those Originating Depository Financial Institutions ("ODFI") in the western time zones with greater processing flexibilities.

### Real-Time Gross Settlement

Implementation of a Real-Time Gross Settlement ("RTGS") that integrates with NSS and Fedwire amongst all payment systems would positively impact the momentum of faster payments by providing greater accessibility to innovators. Enhancing efficiencies and the interoperability of systems and developing solutions for the unbanked and underbanked populations of the U.S.

### Liquidity Management Tool Available for All Payment Systems

Bankers' Bank of the West's comment letter regarding Docket No. OP-1625 (Interbank Settlement of Faster Payments) noted that for community financial institutions to remain competitive and profitable within the faster payments environment, a Liquidity Management Tool ("LMT") should be available to manage intraday balances outside of normal operating hours. A single LMT could assist in managing the liquidity risk across all payment systems routing through the Federal Reserve.

The liquidity management needs of smaller community financial institutions are dissimilar in many ways from those of larger institutions. Having access to the Federal Reserve as an operator is critical to community banks and credit unions seeking to manage their settlement without surrendering control to bigger financial institutions. The option of working with the Federal Reserve directly (or indirectly through its chosen correspondent) will empower the community financial institution to effectively handle its 24x7x365 liquidity needs, to direct balances to be used for reserve requirements, and to earn interest on static balances.

As the use of faster payments expands, integrates, and interacts with existing systems, financial institutions must adapt to the needs of their customers to insure adequate funding is available at all times. It will be easier to determine overnight and weekend funding needs as systems mature, just as financial institutions do today with ATMs. However, during the adoption phase, or for unexpected events, financial institutions' access to a LMT will prove invaluable from a reputational standpoint.

Any LMT must operate on the same 24x7x365 basis as RTGS. Community financial institutions are generally not staffed overnight or on weekends, and payments during those times may have a delayed effect on the financial institution's ability to fund deficiencies, resulting in reputational risk for both the institution and payment system.

### Directory Services

To promote both the speed and security of all payments, the Federal Reserve should establish and maintain a directory service in conjunction with independent, third-party providers to further support ubiquity, resiliency, and interoperability. Such a directory enables financial institutions to make a more balanced choice among systems for specific types of payments based on speed, cost, and quality of the payment system itself, rather than on the availability of a single service. This will enhance the efficiency of the U.S. payment system in its entirety.

### Fraud Prevention Services

Financial institutions are responsible for transaction monitoring; however, the Federal Reserve could offer additional fraud mitigation features at the payment system level as part of the FedNow Service. Such a service could include payment monitoring and alerting participating financial institutions of unusual transactions, especially outside of normal business hours. Financial institution and end-

users must understand, and are generally aware of the added risk associated with faster payments that include immediate settlement, but adequate fraud-monitoring solutions at the Federal Reserve's network level can further mitigate this risk by identifying unusual activity, suspend the transaction, and report suspicious transactions before the transaction is cleared and settled.

#### Separation of Posting and Settlement Files

Given the needs of community financial institutions and the stated settlement goals of faster payments, to facilitate the speed at which funds are considered settled and available, the posting and settlement files should be separated into individual files. A Posting File would be used for recording a transaction to a ledger, which may or may not reside at the financial institutions, while the Settlement File provides the messaging necessary to move the funds between financial institutions.

#### Acceleration of FedNow

The FedNow Service is expected to be available in 2023 or 2024, which aligns with the latest efforts to implement the ISO 20022 standard. Any ability on the part of the Federal Reserve to accelerate this timeline will likewise accelerate the validation and adoption of faster payments. While such acceleration may not be feasible, it should not prevent the Federal Reserve from moving forward with expanding NSS and Fedwire to a timeframe encompassing 24x7x365.

#### Conclusion

The Federal Reserve's efforts to provide ubiquitous access to faster payments is to be applauded. To truly move forward as a leader in payment systems, the Federal Reserve should also incorporate the interoperability of the FedNow system to both private sector faster payment solutions and other payment systems in operation in the U.S.

Further, it should migrate the National Settlement Service and Fedwire Funds Service to 24x7x365 settlement to facilitate payments from other systems, and accelerate as much of this implementation as is reasonably possible. The Federal Reserve should also provide for Real-Time Gross Settlement across all payment systems, with a universal Liquidity Management Tool available to participating financial institutions.

Finally, to facilitate and protect all payments, a directory service, in combination with independent, third-party providers, fraud prevention services, and separate posting and settlement files should be developed to further build confidence, speed, and security in the payments system.

Bankers' Bank of the West appreciates the opportunity to share our thoughts and would be happy to discuss our comments in further detail.

Sincerely,



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President & CEO



Christopher I. Hill  
SVP & CFO



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