



November 6, 2019

Ms. Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551
regs.comments@federalreserve.gov

Re: Faster Payments Council Comments on Docket No. OP-1670, Federal Reserve Actions to Support Interbank Settlement of Faster Payments

Dear Ms. Misback:

The U.S. Faster Payments Council (FPC) thanks the Federal Reserve Board for this opportunity to provide input on the Federal Reserve's planned development of a 24x7x365 real-time gross settlement service (FedNowSM). Since the FPC was launched by industry leaders in 2018, it has moved quickly to promote its mission to facilitate ubiquitous faster payments in the U.S.

As the Board is well aware, the FPC is the result of joint public and private efforts spearheaded by the Federal Reserve. The Federal Reserve's leadership in convening the industry to focus on how to make the U.S. payments system faster, more efficient, and more secure, and driving to consensus such a diverse group with disparate interests – first through the Faster Payments Task Force (the FPTF) and subsequently through the Governance Framework Formation Team – is to be applauded. The FPC stands ready to continue with that effort.

Also, as the Federal Reserve Board is aware, one of the key strengths of the FPC is the diversity of interests, and equitable treatment of industry stakeholders – no matter where the organizations sit in the payments chain – is part of the FPC's DNA. The FPC provides an inclusive and transparent forum for collaboration and problem solving focused on the development and execution of the roadmap toward the FPTF goals of broad adoption and ubiquity of faster payments. As the Federal Reserve Board is also likely aware, the FPC's bylaws specifically require equitable representation for each of six segments – Business End Users, Consumer Interest Groups, Financial Institutions, Payment Networks, Technology Providers, and "Others," – on the board of directors. The FPC's bylaws are also structured to deliver swift action while ensuring no parties are shut out of the decision-making process. We look forward to partnering with the Federal Reserve as a key network provider for faster payments in the United States.¹

Part One: FPC's Relationship with the Federal Reserve and FedNowSM

The FPC sprang from the efforts of the Federal Reserve through the FPTF, and so these comments are deeply rooted in the FPTF's deliverables, including its Final Report and the Effectiveness Criteria,² a joint

¹ See Article II, "Bylaws of the U.S. Faster Payments Council, Inc." at <https://fasterpaymentscouncil.org/wp-content/uploads/2018/11/us-faster-payments-council-bylaws.pdf>

² For all references to the Faster Payments Effectiveness Criteria, see "Faster Payments Effectiveness Criteria" at <https://fedpaymentsimprovement.org/wp-content/uploads/fptf-payment-criteria.pdf>

product of the FPTF and the Secure Payments Task Force. The FPTF's Final Report delivered a number of recommendations concerning the development of faster payments in the United States, including the development of an industry-led framework for collaboration and decision making to execute on the task force's recommendations.³

The FPC is purpose-built to fulfill these recommendations, as FPC's bylaws and operating procedures are designed to ensure that all stakeholders are positioned to participate equally in deliberations and decision-making. It is important to keep in mind throughout the course of these comments that the FPC is guided by three fundamental principles: inclusiveness, flexibility, and transparency, and the FPC has clear processes for internal deliberations and decision making that are open, transparent, and objective.⁴

As part of our ongoing mission to understand, influence, and drive the industry toward faster payments, the FPC recently conducted a survey of payments system stakeholders, the Faster Payments Barometer, to gauge opinions and thoughts on a variety of topics related to faster payments in the United States. The Faster Payments Barometer was widely circulated and received over 700 responses from a broad array of payments stakeholders. When asked "[w]hich type of entity do you think should be the lead catalyst in fostering market adoption of faster payments," 25% selected "industry consortiums/organizations (e.g., U.S. Faster Payments Council, Nacha, etc.)." This demonstrates support from the industry for the vision behind the FPC and the opportunity the FPC has to truly lead the industry.

And the emergence of the FPC as an industry leader and catalyst could not have come at a more critical time. The Faster Payments Barometer survey shows that industry participants view the United States as falling behind the rest of the world. Fully 59% of survey respondents indicated that the United States is not making "satisfactory progress toward faster payments adoption." Reasons cited for the United States being behind included "existing faster payments systems have not yet reached ubiquity and do not interoperate with one another" (53%), "high upfront costs and complexity to implement (resources, operational changes, staffing, etc.)" (48%), and "lack of common rules and standards" (35%).

More specifically, the FPC is also well-positioned to work alongside industry stakeholders from solution providers to end-users in developing quality tools and guidelines (e.g., best practices, checklists, templates) to assist in achieving adoption and ubiquitous reach for faster payments in the United States. One type of deliverable our members could develop on behalf of the industry would be the development of coordinated market practices – from design to operations – that would aid in the integration and adoption of faster payments.

Again, this concept is aligned with existing industry consensus. As the Federal Reserve Board knows, the Effectiveness Criteria discuss a criterion related to "usability," calling for effective solutions to "provide a straightforward and simple end-user experience and be available anytime, anywhere, any way, using a

³ See "Recommendation 1: Establish a faster payments governance framework" at <https://fasterpaymentstaskforce.org/goals-and-recommendations/faster-payments-governance-framework/>

⁴ See pg. 4 of "Framework for the U.S. Faster Payments Council" at <https://fasterpaymentscouncil.org/wp-content/uploads/2018/11/us-faster-payments-council-framework-11132018.pdf>

variety of access points.” Further, the Effectiveness Criteria also identify the criterion of “predictability,” which “means that the Solution should have a reliable and standard End-User experience for its baseline features.” These properties are critical to gaining traction in the marketplace and achieving ubiquitous reach of faster payments, and the FPC has precisely the cross-section of industry participants to develop end-user interfaces that will provide a high degree of usability.

Part Two: FedNow Product Features Discussion

Interoperability

A primary consideration the Federal Reserve Board will need to consider is the need for and speed to achieve interoperability with other payments systems already in the marketplace. The FPC believes strongly that interoperability will be an extremely important strategy for achieving ubiquity, also a stated goal of the Federal Reserve Board. Responses to the Faster Payments Barometer demonstrate that this is a widely held view throughout the payments system, as 95% of respondents agreed that interoperability is either “very important” or “somewhat important.” Interoperability is clearly a major priority for the industry, and the FPC’s broad, diverse membership of experts from all parts of the payments ecosystem is the ideal forum for developing a cross-industry plan for interoperability of faster payments systems.

Absent interoperability with other solutions in the market, the only way for any solution, including FedNow, to achieve ubiquitous reach is for that solution to integrate into every financial institution in the United States. If the Federal Reserve Board intends to achieve ubiquity in this manner, the issue of technical interoperability becomes less critical. While there is some precedent for this approach, for example, the universal adoption of FedWire, the FPC believes the clearer, and faster, path to ubiquity will involve interoperability of private and public sector faster payments solutions. And if FedNow is viewed as a major component in a broader ecosystem solution that, in totality, reaches all depository accounts (akin to the ACH system today), then interoperability, which has broad support among the industry, as indicated in the results of the Faster Payments Barometer, becomes a key deliverable the Federal Reserve should prioritize for inclusion in FedNow as early as possible.

The results of the Faster Payments Barometer support this conclusion. When asked “[h]ow important is it to achieve interoperability across compatible faster payments systems in the U.S. market,” 78% said “very important,” and when asked “[w]hat do you think should be the timeline for interoperability among faster payments systems,” half of the respondents (49%) thought interoperability should be attained in 1-4 years, with 22% selecting “as soon as FedNow is implemented.”

The Faster Payments Barometer shows that interoperability can also foster adoption and thus accelerate usage of faster payments. In the Faster Payments Barometer, 78% responded that they believe that achieving interoperability across compatible payments systems is “very important” and an additional 17% believe it is “somewhat important” – demonstrating very strong support for interoperability (95% of the industry professionals that responded are in support of interoperability). These responses suggest there is an appetite to adopt faster payments if the industry comes together to provide a standard, uniform, interoperable approach.

While it is clear that the industry agrees that interoperability will be key for the success of faster payments, the methodology for achieving interoperability is less clear. According to Faster Payments

Barometer respondents, when asked “[w]hat is the best way to achieve interoperability among faster payments systems,” 34% selected “Network Operators,” 26% selected “Intermediaries,” and 21% selected “Central Switch.” The FPC recognizes, and the Faster Payments Barometer reinforces, that there are many ways to achieve interoperability and there might not be any simple “silver bullet” solution.

With that said, we believe the FPC, as a neutral party, could play a positive role in helping the industry define the most appropriate model for interoperability as well as other critical aspects of faster payments, such as how exception processing should be handled. For example, 73% of respondents to the Faster Payments Barometer thought dispute resolution should be an inherent feature of faster payments in the United States.

The FPC brings together a diverse group of stakeholders and provides a forum to discuss the technical, operational, policy, risk, and liquidity issues that may need to be addressed as part of any approach. We have begun looking at interoperability models from other U.S. payments rails and countries that have faced similar challenges to identify potential solutions. We invite the industry to join the FPC to collaborate and to engage on this cross-cutting issue.

ISO 20022

ISO 20022 has emerged as the common global framework for faster payments, and the FPC fully endorses the Federal Reserve’s use of ISO 20022 for FedNow. That said, ISO 20022 is not a single standard, and there are a number of options contained in what is essentially a transacting framework. For that reason, the FPC specifically recommends that the Federal Reserve implement ISO 20022 in a manner that is consistent with the U.S. Real Time Payments Group Market Practices, including usage guidelines unique to U.S. implementations. This will ensure that FedNow’s implementation of ISO 20022 messages are consistent with the implementation methods of other real-time payments operators in the United States, easing the path to interoperability.

ISO 20022 payments will be unfamiliar for many potential participants in FedNow. Therefore, we encourage the Federal Reserve to work with the FPC, which is uniquely qualified to address this issue, to evaluate and develop transition or conversion services to help participants begin using the service in a cost-effective manner.

Credit Push Transactions

Relatedly, the Federal Reserve Board has indicated its intention that the FedNow solution will leverage push payments (also referred to as “credit” transactions, as opposed to “debit” transactions). One advantage of push payments is that push payments reduce the need for consumers to share sensitive account credentials in order to make payments. While there are also likely use cases that would benefit from the eventual availability of a debit pull transfer transaction, consumer protection, overdraft, operational needs, and security must be addressed first.

This is another topic covered by the Faster Payments Barometer, wherein respondents were asked “which of the following attributes should define faster payments,” and 58% selected “credit push transfer” and 35% selected “debit pull transfer.” Of those that selected credit push transfer, 75% rated it as “very important” to their organization.

In the initial phase of FedNow, where most transactions would likely be person-to-person or business-to-business payments, we believe that credit push will match end-user needs. In certain cases, such as with low-dollar recurring bills, a debit pull option may ultimately contribute to certain appropriate end-user needs and ultimately serve to expand adoption. We caution that our support of the use of debit pull in a faster payments solution hinges on the overlay of consumer protections within the ecosystem.

Real-Time Payee Account Validation

The FPC understands that the Federal Reserve intends to develop the ability for senders to ascertain whether or not the receiver's account number is a valid account. This functionality is good, and the FPC supports this approach. In response to the Faster Payments Barometer, 59% said immediate account validation is an attribute that should define faster payments, and of those, 81% rated it as "very important" to their organization.

However, another important security-related consideration is whether the system should include real-time confirmation of the receiver's identity. The FPC has observed that social engineering and other forms of deceit can be used to cause both consumer and business users to erroneously send funds to the incorrect account. Many existing push payments systems in the United States and around the world have implemented a form of payee confirmation. This functionality has been shown to reduce errors in payments, prevent certain types of fraud, and increase consumer confidence in using these systems.

That said, the FPC notes that many of the benefits of real-time payee account validation can also be achieved through the use of alias directories. Thus, prior to requiring real-time payee account validation, the Federal Reserve Board should consider the effects on the adoption of FedNow and the ultimate goal of ubiquitous faster payments. This is another area where the FPC's inclusive structure makes it the ideal place for such a topic to be discussed and for an approach to be agreed upon by the diverse stakeholders who are our members.

Request for Payment Feature

Somewhat related is the question of whether the FedNow solution should include a "request for payment" feature, which is also relatively common among push payments systems. A request for payment can eliminate some of the uncertainty that exists when pushing funds from one account to another, as the two parties are able to identify each other with certainty prior to releasing the funds through an irrevocable credit push transaction. Thirty-three percent of respondents to the Faster Payments Barometer stated that the inclusion of request for payment functionality is an attribute that should define faster payments.

Transaction Limit

The Federal Reserve Board has proposed a \$25,000 transaction limit in order to use the FedNow Service. The FPC notes that while transaction limits are appropriate to manage risk, a \$25,000 threshold is likely too low for large businesses to be able to use FedNow to make supplier payments. Moreover, this will be a lower amount than the limits announced by some private sector solutions. The FPC recommends that if the Federal Reserve Board keeps the threshold as is, it allow for flexibility to adjust the threshold on a periodic basis as market conditions warrant.

Part 3: Directory Service

Another critical item to consider in the development of FedNow is the creation and/or adoption of a directory service. A major obstacle of any new payments solution is getting end-user adoption. Existing payment types, which may or may not provide the same quality of service, generally have an advantage in terms of users that have already adopted such payment type. For that reason, the process for adoption and mitigating day-to-day usage burdens for a new payment type will be important, and an effective directory model can streamline this process. For this reason, the FPC believes that an effective directory model is an important prerequisite to adoption and ubiquity, makes day-to-day transacting simpler for users, and reduces the need for users to share sensitive account credentials within the system.⁵

The Faster Payments Barometer further shows that participants in the payments industry generally agree on some other key aspects. When asked “which of the following attributes should define faster payments,” 29% selected directory/addressing service. Of those, 68% rated directory/addressing service as “very important” to their organization. This response begins to come into focus when we asked how a directory should work – 42% of the respondents favor multiple directories, meaning each faster payments system would have its own directory, interacting with other faster payments systems. At the same time, 33% of the respondents thought that there should be a single, shared directory, while 21% indicated they weren’t sure. Across the responses, we see an emerging preference for the multiple directories model, with a presumption that directories would interoperate with each other.

The FPC’s position also aligns with the Effectiveness Criteria regarding “usability,” which states that “[t]he Solution should enable an Entity to initiate a payment with limited information (e.g., with a name, email address, and/or phone number) as appropriate for each use case and in a way that sufficiently supports receiver Authentication.”

Additionally, the persistence of solutions wherein sensitive account credentials must be shared and transmitted among a number of parties and intermediaries exposes the system to unnecessary risks associated with the theft and misuse of such information to commit fraud. And again, the Effectiveness Criteria recommend that “[t]he Solution should have controls and mechanisms to protect sensitive information needed for Account setup, transaction setup and problem resolution from unnecessary disclosure. For example, the Payer and Payee should not need to know each other’s Account numbers or other sensitive information to initiate or receive the payment.” Directories can significantly reduce the need for parties to a transaction to share, receive, store, and transmit sensitive credentials. That said, there are a number of methods for reducing the use of sensitive account credentials, with the use of a directory model being only one such method.

The FPC notes, as indicated in the Request for Comment Notice, that there are a number of different approaches to developing directory services, and each solution has advantages and disadvantages. For

⁵ See “Recommendation 4: Establish an inclusive directory work group to identify and recommend a directory design for solutions to interoperate in the faster payments system.” At <https://fasterpaymentstaskforce.org/goals-and-recommendations/establish-an-inclusive-directory-work-group/>

that reason, the FPC has launched a Directories Work Group to analyze the different potential structures for directories and to serve as a forum for the industry to coalesce around an approach.

End-user adoption of FedNow will depend on the confidence end-users have in the security of their account data. As the Federal Reserve Board proceeds with its exploration of offering a directory, it should prioritize how directories can empower end-users to control personal account information contained within directories. Participants should have the means to verify the accuracy of their account data, and if necessary, correct any errors. Implementation of this goal could be the responsibility of FedNow, of partner solution providers, or of the end-user's financial institution. Additionally, end-users should have the right to verify that their financial institution has removed account data from a directory when the associated bank account has been closed. In cases where an end-user has more than one account registered inside a directory, the directory should allow end-users to prioritize which accounts are utilized for payment.

Part Four: Fraud Prevention Services

The Federal Reserve Board also asked for input from the industry regarding the provision of fraud services alongside or as part of the FedNow service. Combating fraud will be a persistent need for this nascent system, as it is for all existing payments systems. The FPC has observed that there is a need for payments system stakeholders to exchange data related to fraud in an effort to inoculate the entire system against known threats. Historically, this type of coordination has proven difficult, which is why the FPC has launched a Fraud Information Sharing Work Group to assess the opportunities and needs in this space. We encourage the Federal Reserve to actively participate in this work group, as its deliverables should prove invaluable for assessing the Federal Reserve's role in this space.

It is possible that additional layers of security will be necessary going forward, but there are also trade-offs the Federal Reserve should consider with regard to the usability and adoption of FedNow payments by end-users. With that caveat in mind, we wanted to include additional information from the Faster Payments Barometer related to industry fraud preparedness, in an effort to further inform the Federal Reserve Board's decision on this topic:

"What types of fraud concern you the most in faster payments?"

- Account takeover: 72%
- Identity/application fraud: 64%
- Transaction fraud: 59%
- Money mule network fraud: 31%

We believe the Federal Reserve can utilize its position at the center of the FedNow system to leverage the benefits of investment in anti-fraud techniques. We would point to one example in the UK, where regulators have addressed some of the risks for credit push sender-authorized fraud using technology to uncover and disrupt mule accounts. No single financial institution could implement that particular solution on its own, as the process works by tracking the end-to-end trail of fraud as those funds travel from the end-user account to a mule account and then to their final destination. An approach such as this one gives the payments system the ability to counteract fraud even in credit push transactions. Pay.UK has demonstrated an ability to combat many different types of electronic payments fraud, including malware scams, spam e-mails, and phishing.

We support the Federal Reserve Bank of Boston's efforts at establishing a standardized fraud database. In addition to collecting data about the type and scope of fraudulent activities, it is important to collect data on the payments participants who bear the risk and liability for fraud losses. In instances where that liability is shared, we should collect data that allows an assessment of the allocation of such risks and losses.

New payment services introduce many benefits. They can significantly reduce the end-to-end cost of the payments ecosystem. They can also shift the risk for losses and fraud. It will be important to understand over time whether new services are inappropriately shifting risks to consumers in ways not anticipated at the outset. It will also be important to understand any shifts of risk to small business-users. While individual user identification should not be shared, understanding and transparently sharing risk experience by payments system user-segments will support faster and better regulatory responses. It will also ensure that any isolated but "viral" story about user losses doesn't adversely impact adoption.

Part Five: Expanding Fedwire and National Settlement Service to Enable a Liquidity Management Tool

The Request for Comment Notice states that the Federal Reserve will pursue extending the operating hours of Fedwire and the National Settlement Service (NSS) as part of its overall efforts to enhance the payments system in an initiative separate from the FedNow project. The benefits of extending Fedwire and NSS would make it easier for the Federal Reserve to offer a Liquidity Management Tool (LMT) to help financial institutions using The Clearing House's RTP Network manage their fund balances held in a joint account at the Federal Reserve Bank of New York. The private sector model requires prefunded balances. This poses a challenge when Fedwire is not operating on weekends and holidays, and financial institutions need to move funds to the prefunded accounts to minimize the risk of disrupting payment flows. The LMT would allow for lower balances to be maintained in the prefunded accounts and more funds to be maintained at the Federal Reserve where they will earn interest and count towards capital reserves.

Extensions to Fedwire and NSS would also benefit other parts of the payments ecosystem. The ACH network would be able to open new settlement windows on weekends and holidays, benefiting consumers and business end-users who will be able to receive funds every day and not be forced to wait up to 72 hours over long weekends. Merchants would be able to receive credit card receivables faster, enabling better treasury management.

The Federal Reserve should pursue enhancing Fedwire and NSS and a resulting LMT for the benefit of broader stakeholders and more expedient adoption of faster payments. This initiative should start as soon as possible and is not dependent on determining FedNow requirements before work begins. Transitioning to a 24x7x365 operating environment is essential for modernizing the U.S. payments system.

Conclusions

The United States is ready to move to faster payments. The tipping point for adopting a 21st century payments infrastructure is fast approaching, and it is important to the industry that key players, including the Federal Reserve System, come together and work quickly to ensure the country's economy

and payments infrastructure are properly served. This means working to accelerate timelines for implementations, ideally including the current timeline for FedNow to be in market by 2023/2024, and coming together to solve problems quickly and effectively. That said, the FPC also recognizes that this is a large undertaking, with many disparate deliverables and dependencies. The FPC believes that the best approach will be for the Federal Reserve to prioritize the features and functionality that are essential at the time of launch, with a roadmap for enhancements to build out a more fulsome solution once FedNow is in the market.

The Faster Payments Council has emerged as the leading voice for identifying obstacles to faster payments adoption and working in a collaborative, inclusive manner to solve the problems and move the industry forward. We are excited about the opportunity to work alongside the Federal Reserve to make FedNow a successful addition to this dynamic part of the U.S. payments system.

Warm Regards,



Kimberly Ford
Executive Director
US Faster Payments Council
kford@fasterpaymentscouncil.org