



November 7, 2019

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

Re: Docket No. OP-1670

Dear Ms. Misback:

The New England Automated Clearing House Association (NEACH) welcomes and appreciates the opportunity to respond to the Request for Comment on the **Federal Reserve Actions to Support Interbank Settlement of Faster Payments**, as provided by the Federal Reserve Board of Governors.

NEACH represents more than 420 financial institutions with headquarters and branches located throughout Maine, Vermont, New Hampshire, Massachusetts, Rhode Island, Connecticut and New York. Over 80% of our members have an asset size below \$1 billion, and have strong ties to the communities they serve. Our response was prepared with input from our NEACH Membership and the NEACH staff.

BACKGROUND

Since the Federal Reserve Bank published the *Strategies for Improving the US Payment System* (SIPS), (Fedpaymentsimprovement.org, 2018)ⁱ in 2013, there has been increased innovation in the payments industry. This activity includes the formation of the Federal Reserve's Faster Payments and Secure Payments Task Forces, with the private industry and networks like NACHA, developing new rules and solutions and exploring faster and more secure payments. However, for a significant cross section of the financial services community, these solutions remain out of reach due to cost or limited auxiliary services.

In addition to the industry change prompted by the SIPS paper, technology has made tremendous strides in the last few years democratizing innovation. Today we are seeing Fintech Innovation exploding (Medium, 2018)ⁱⁱ. NEACH believes that access to a ubiquitous and interoperable real-time payments system, as proposed by the Federal Reserve, combined with Fintech partnership, will improve our members' ability to serve their communities.

SUMMARY RESPONSE

The NEACH membership is in favor of the Federal Reserve developing the FedNow service as soon as possible. Our feedback will also outline several points for the Federal Reserve to evaluate in development, inclusive of auxiliary services, that should be included with the launch of FedNow, as well as additional auxiliary services that are of high priority to our members.

KEY FEATURES

Establishing a \$25K per entry limit

We are in favor of this limit. We suggest that the Federal Reserve consider evaluating the dollar limit as launch date approaches. Both the Nacha Same-Day ACH and the Clearinghouse's Real Time Payments (RTP) are either considering an increase to the \$25,000 limit or have already increased limit on their offerings.

Integration of message/clearing instructions to Receiving FI to complete transaction

We agree that this feature should be included with initial launch. NEACH is specifically interested in standards and rules. The ACH grew and flourished with the Fed and others serving as Operators, and with NACHA and the Payments Associations developing and enforcing Rules that all financial institutions and participants could rely on.

In fact, in our outreach, one member provided the following with a detailed suggestion, *"The primary means of accessing FedNow should be via RESTful API. File or Batch based transfer should not be supported. FedNow should focus on eliminating as many "middlemen" as possible. The Fed should host the API endpoints that enable the transfers. Banks should be able to connect by registering as an API user, the same as any software development company registers to use Stripe or Plaid APIs. Banks should have easy access to a Sandbox environment and be able to provide contracted 3rd party software development companies with access on their behalf. It's Important that the Fed provides a webhook to send out status updates on transfers."*

Receiving Institution Confirmation of Entry Information is Valid

We believe this feature should be part of the initial product. As the Fed indicates, it is seeking information on 3 layers of features, features of the core functionality, intermediate features and ecosystem features. Incorporation of these into the core functionality of FedNow will provide the greatest value to our members.

A question arises as to the definition of "valid". A more important question that should be explored is whether this definition includes simply an open active account number within the end-user institution, or should there be other validation criteria, such as name matches or other industry-defined criteria? We hope the Fed will examine this in their development.

Wide and Deep Breadth of Tools, Reports and Functions Regarding Seven- Day Accounting

Member responses included DFIs having the ability to set up floors and ceilings for account funding that could automatically withdraw/deposit money into the Master Account. Members also responded that the Fed may look to organizations like the Chicago Mercantile Exchange that allows participants to reconcile during a predefined time as a model for consideration.

NEACH agrees that robust reporting should be part of FedNow core functionality. The Federal Reserve should provide institutions with the tools they need to properly measure, monitor and control this new rail.

Use of ISO 20022 Standard

There is no question that the world has looked to ISO 20022 in supporting real time payment systems, and that the Fed should go in this direction. The Fed should explore not only basic functionality, but also enabling tools that would allow for full utilization of ISO 20022 messaging.

NEACH also believes that the Fed should explore other feedback that would future-proof FedNow as the industry evolves. Understanding that it is impossible to predict the future, the spirit of this comment is to be open to in consideration and design of the system. The Fed should spend time reviewing whether or not blockchain should have any role in the solution, as we believe that blockchain is in its infancy, and may add additional functionality to a real time gross settlement system. One member suggested that blockchain may help financial institutions in complying with AML/BSA requirements by holding additional account information/attributes on the blockchain and that be integrated with FedNow.

Use of Fedline to Provide Access

NEACH absolutely supports this. However, it is not clear how ubiquitous FedLine is. Where appropriate, the solution should have other methods for connection that are equally as secure as FedLine.

Finally, other standard features of the FedNow solution on day 1 should include features discussed in recent Federal Reserve presentations:

- Payments settling with a Federal Reserve Master Account
- Liquidity on 24x7x365 basis, consistent with Fed Policy on Payment System Risk
- Use of Third Parties or Agents
- Settlement in Correspondent Accounts

AUXILIARY FEATURES

Request for Payment

NEACH believes that to provide the most value to our membership and the industry, this functionality should be built into the system on day 1. As with other features, the Fed should have tools and training to aid the industry in utilizing a Request for Payment. In support of this position, one member's feedback included, *"This is an essential part of the system..."*

Use of Directories

Directories, as a concept, are a very useful tool in moving the network forward. The Fed should certainly explore the idea of directories. With the concept of future-proofing FedNow, would directories be solely used in FedNow? And what would be included in these directories? Would the creation of a Federal Reserve Payment Directory be useful in modernizing other payment rails? NEACH, as an organization with ACH in our roots, thinks that a payment directory would be useful in the ACH Network to reduce fraud, and help make the ACH network safer and more efficient. In responding with a positive response to this idea, we understand that it may put the Fed in conflict with the private sector.

In addition, a FinTech member added the following insightful information, *"Directories can also be helpful to individuals that need to temporarily shut down their accounts due to fraud or identity theft."*

Individuals should be able to pause their directory info, put it into a warning state, or delete all of their information. They should probably be able to do this through their bank, but as many people have multiple bank accounts, the ability to globally do it at the directory level is important too."

Fraud Prevention

As an Operator of the FedNow Service, the Fed should consider any number of fraud prevention tools for the network. The Fed would be in the best position to identify trends in activity. Although NEACH is not in a position to clearly itemize the design of such a tool, consideration should be paid to network review, perhaps identifying suspect accounts. This would include the ability for institutions to receive and report suspicious transactions based on analysis by the Fed of data flowing in the Network.

There should certainly be functionality around "recalling" a transaction, understanding that it is a credit-push system, and payments are final. Other systems have the ability for a receiving institution to voluntarily return a payment. In addition, institutions may be able to provide permission to send an entry back if they determine it is suspect.

Finally, education is the key. The Payments Associations have been helpful with numerous payment channels with grass-roots education and marketing, and the Fed should include these training partners in the plan.

Rules and Enforcement

For over forty-five years, NEACH has served as a participant in payments rules-making, and as marketer and educator for the payment systems. The Fed should consider using organizations like NEACH, NACHA and the Faster Payments Council to aid in promoting and developing the network. Over the years, NEACH has been active in developing rules and enforcing those Rules for the ACH and other payment rails. The question is, whether the Fed will serve as the Operator, Rules developer and enforcement organization for this new network? Additionally, other solutions have formed across the industry, and ecosystem participants serve in an advisory role. In fact, the development of FedNow was initiated, in part, from the Faster Payments Task Force, a representative body.

Adoption

Other payment channels have components that have led to adoption of those channels. The ACH has provided minimum guidance around specific authorization requirements, participant warranties and Origination Agreements that define the minimum requirements for entities sending and receiving transactions. Financial institutions have disclosure documents that spell out how they receive and process checks that may specify how the financial institution applies laws and clearing house rules.

Will the Fed consider assisting in identifying the core requirements that help support the consistent adoption of a real time payments network? These rules or guidelines will serve to provide consistent expectations among government, business and consumer end-users, who are the ultimate beneficiaries of this new rail.

APIs

Numerous respondents to our member outreach on the development of FedNow say, and we agree, that APIs should be enabled for this service. The feedback was reflective of the need for a higher participation by the Fed, including the provision of API libraries and support a Sandbox for programmers.

Build or Buy. Or Partner?

In conducting a full build or buy decision, we wish that the Fed would examine the possibility of partnering with other solution providers in the U.S. The private sector provider already has a solution. NEACH is certainly not in the position define the Fed's process in any way, but depending on the most important criteria, the US could benefit from a partnership. If the most important criteria is time, partnering may be the best option. However, if the most important criteria is robust auxiliary services, a system based on the features identified in our response and other, may be the best solution for improving the US Payment System.

We again appreciate the opportunity to participate in this very exciting initiative.

Sincerely,



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¹ Fedpaymentsimprovement.org. (2018). [online] Available at: <https://fedpaymentsimprovement.org/wp-content/uploads/strategies-improving-us-payment-system.pdf> [Accessed 8 Dec. 2018].

² Medium. (2018). *How Fintech is Revolutionizing the World with Innovation..* [online] Available at: <https://medium.com/@MarutiTech/how-fintech-is-revolutionizing-the-world-with-innovation-30a30fc0764f> [Accessed 8 Dec. 2018].