



November 7, 2019

VIA ELECTRONIC MAIL (regs.comments@federalreserve.gov)

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

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

Ladies and Gentlemen:

Stripe appreciates the opportunity to respond to the Federal Reserve's request for comment on its plan to develop FedNow, a new interbank 24x7x365 real-time gross settlement service to support faster payments in the United States.

Stripe is a technology company that builds economic infrastructure for the internet. Businesses of every size use our software to accept payments and manage their businesses online. Today, millions of customers in more than 100 countries use Stripe to start, run, and scale their companies, and we have experience working with a range of different payments and settlement systems around the globe.

We strongly support the Federal Reserve entering the U.S. faster payments market as the operator of FedNow. Nearly every American consumer and business, from neighborhood small businesses to major corporations, depends on U.S. payments infrastructure. Unfortunately, the United States has fallen behind other developed and emerging economies that have built faster and more efficient payments systems. FedNow can help to close that gap by providing foundational U.S. payments infrastructure that meets the needs of our increasingly digital economy.

We urge the Federal Reserve to design FedNow as a core settlement utility that can fill important gaps in the current payments system, reach a wider range of users, and foster both predictability and innovation. A fast, secure, widely available system will be vital for ensuring the continued growth of the online economy, and will spur the development of new services for consumers and businesses. Additionally, we commend the Federal Reserve's ongoing efforts to engage a broad range of stakeholders and potential end users to develop the business requirements for FedNow. This collaborative approach is most likely to yield a system that can accommodate the broadest range of use cases, including those we cannot now imagine.



Designing FedNow as a Core Settlement Utility

The Federal Reserve should design FedNow as a core settlement utility for depository institutions with direct access to Federal Reserve services, as well as other faster payment services offered by the private sector that settle through partner banks. In order to design a core settlement utility, the Federal Reserve will need to develop access standards, a core rules set, and messaging standards. While liquidity and credit capabilities and network connectivity may also be relevant to core settlement, they are not the focus of this letter. By focusing on these core settlement capabilities, the Federal Reserve can broaden end-user access, preserve flexibility for innovation, and improve predictability for stakeholders.

Access and Innovation

FedNow should be designed to reflect and support the expanding role of non-bank payment service providers in the payments system. While direct access to FedNow may initially be limited to banks, many non-bank payment service providers, such as Stripe, will be indirect consumers of FedNow's services through their partner banks. These service providers are important participants in the U.S. payments system. Individuals as well as businesses increasingly access the U.S. payments system through their products. Moreover, they help to improve consumer experiences while also filling many of the gaps in coverage left by traditional financial institutions. As such, we ask that the Federal Reserve incorporate functionality into FedNow that would enable non-bank payment service providers like Stripe to integrate seamlessly with the service. For example, the Federal Reserve should provide direct API access and transaction reports to non-bank service providers that partner with banks that are able to access FedNow. We believe this approach is not only consistent with the approach of other central banks that provide faster payments services, including the Bank of England, but also within the Federal Reserve's existing authority.

We believe the inclusion of design features that minimize the friction of non-bank participant engagement with FedNow with or through a bank partner will support innovation and significantly benefit American consumers and businesses. These features would enable non-bank participants like Stripe to manage transactions on behalf of customers in a more effective and timely manner. These features would also help to make faster payments accessible to all Americans, including those most in need of those services: the unbanked and underbanked. Too often these individuals are left out of bank-centric systems and forced to turn to high-cost check cashing or alternative financial services providers to meet their payment and credit needs. This places unnecessary burdens on vulnerable populations and is a drag on the broader economy. By developing a flexible settlement utility that connects not just banks, but also faster payments services that reach all U.S. consumer end-users, the Federal Reserve will be supporting and empowering the unbanked and underbanked, as well as those living paycheck to paycheck. Last, by enabling broad access by non-bank service providers and various types of end-users, these features will support adoption of a wider range of use cases.



In addition, FedNow should be based on a flexible message format that can accommodate a wide range of use cases, including existing, emerging, and yet-to-be-conceived use cases. ISO 20022 has emerged as the common global framework for payments, and serves as an accommodating baseline for other faster payments solutions in domestic and international markets. We also believe that the FedNow message format should support contextual data capabilities (i.e., the transfer or association of relevant information needed by end users, such as invoicing capabilities). FedNow should support the broadest number of lawful use cases, and a flexible messaging format is critical to that goal.

Predictability and Stability

FedNow should also be built on a core rule set that provides predictability for end users, direct participants and service providers, while still providing flexibility for innovation. The core rule set should address issues like the timing of payments, dispute rights and error resolution, costs, and risks. Shared expectations on fundamental issues like dispute rights and error resolution are particularly important when it comes to faster payment transactions that are final and irrevocable. This approach of providing a rule set that remains flexible, while addressing core issues, is consistent with the approach for wire transfers under Uniform Commercial Code Article 4A.

Finally, we encourage the Federal Reserve to prioritize availability and resilience when developing FedNow. This is particularly important for an increasingly global and around-the-clock economy. With a focus on core settlement capabilities, other payments system stakeholders will layer services on top of FedNow, and such services will be dependent on the availability of the utility. The Federal Reserve Banks have a proven track record with high-availability systems, and FedNow should be built to similar availability standards.

Prioritize Core Settlement Capabilities

The U.S. payments system urgently needs a core real-time settlement engine to address domestic market needs and keep pace with developments around the world. The Federal Reserve should prioritize developing and deploying the core settlement capabilities discussed above before committing resources to developing supplemental services, such as an end-user directory or fraud prevention services. The development of these supplemental services can be addressed at a later date, while the core capabilities are needed now.

We appreciate that certain supplemental services, such as a centralized directory and fraud prevention services, could influence FedNow adoption. Innovation relating to these supplemental services should not be foreclosed by early design decisions. However, the private sector may be able to provide—or in many cases is already providing—these supplemental services. For example, the private sector has invested significant resources in developing end-to-end neural networks and end-user authentication techniques to identify and prevent payment fraud. Our product, Stripe Radar, uses machine learning to detect and block fraud, money laundering, and terrorist financing not only on our platform, but also across a variety of banks and other financial institutions.



Conclusion

For over a century, the Federal Reserve has provided safe and reliable payment and settlement services while also advancing payments system innovation. We believe FedNow marks an important step forward, and presents an opportunity to not only improve a critical component of the nation's economic infrastructure, but also reclaim America's role as a global payments leader. Stripe is ready to assist the Federal Reserve in its efforts, and is dedicated to supporting the successful development and deployment of the FedNow system.

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We thank the Federal Reserve for its consideration of the views expressed in this letter. Should you have any questions or require any additional information, please do not hesitate to contact me at 413-308-2853.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Leila Perkins".

Leila T. Perkins
U.S. Regulatory Counsel
Stripe