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DisLedger Ltd. Comments on the Federal Reserve's Real-Time Gross Settlement System

DisLedger Ltd. is pleased to submit this comment letter to the Board of Governors of the Federal Reserve System in response to the Request for Comment Docket No. OP – 1625 regarding potential actions to support interbank settlement of faster payments.

DisLedger fully supports the Federal Reserve providing settlement of interbank obligations using a Real-Time Gross Settlement (RTGS) system. These comments are intended to help refine and shape the Board of Governor's thoughts on the RTGS design early in the process so that an effective system can be deployed as quickly as possible.

Below are comments on two of the questions posed in the Request that are most directly within DisLedger's area of expertise:

1. Is RTGS the appropriate strategic foundation for interbank settlement of faster payments? Why or why not?

Yes, a Real-Time Gross Settlement (RTGS) system should be developed. However, whether to Net or Gross settle is not the only criterion that must be evaluated in developing a modern payment system. Data privacy must be considered in the system design as well.

As indicated in footnote 48 of the RFC, the RTGS system must be designed in such a way as to separate the detailed, customer information in the payment message that is required for clearing, from the dollar amount that is required to be transferred between the depository institutions' accounts at the Reserve Banks for settlement. To achieve straight-through-processing a single payment message should be sent into the RTGS system but the customer information required for clearing and the information required for the Reserve Banks to settle the transaction should be processed separately as described in the alternative approach below.

The approach described in the RFC requires the Reserve Banks to process and store the clearing data at the same time it conducts settlement. This causes the Federal Reserve to have more data than is required to effect settlement. Given that the goal of is a system that serves every user in the country, the Federal Reserve will have access to more data than it is currently authorized to hold. The data in modern retail payments systems is not limited like a short, memo field on a check but rather consists of a tremendous amount of information related to the transaction. If RTGS is successful in becoming a ubiquitous payment service, the Federal Reserve will be required to store massive amounts of data containing every U.S. Persons' spending habits; their



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donations and instructions to nonprofits such as political organizations; peer-to-peer messages between individuals that are included with payments such as popularized by Venmo; and the real-time sales activity of every company in the country. Given the negative effect this collection of data would have on civil liberties, it is unlikely that authority to collect such a wide scope of information would be granted in the future.

The Reserve Banks do not actually need to have access to this clearing data to properly settle an RTGS payment. But in the approach described in the RFC they would store sensitive data for every transaction undertaken by every person. The clearing data is critically important for the participants but is not something that should be stored by the Government, especially when it is not even required to conduct settlement. The Federal Reserve's access must be limited to only the data actually required for settlement: the sending institution, receiving institution, settlement amount, and as-needed, a transaction identifier. The detailed, customer information in the payment message must be securely communicated between the participants but must not be stored by the Government.

An alternative approach to RTGS would be for the interbank payment messaging to be conducted directly between the depository institutions with only the settlement amount processed by the Reserve Banks. A distributed system architecture could be implemented in which: 1) the Federal Reserve uses a FedLine® network to connect every depository institution; 2) the depository institutions clear and process the sensitive transaction data directly between themselves and; 3) the Reserve Banks have access to the settlement data in real-time, so they can credit and debit the Master or Settlement account balances. This approach allows the stakeholders to have access to the data they require while ensuring the safety, soundness, efficiency and equitable access to the RTGS payment system.

The detailed, clearing data would be sent over the FedLine network directly from the sending institution to the receiving institution and will be processed and stored by the institutions, not by the Federal Reserve. The Reserve Banks would only have access to the amount that is settled between the institutions to maintain the balances of their accounts.

Given that RTGS will be a new system development, separation of the data can easily be accomplished using a distributed system architecture. DisLedger is interested in continuing our discussions on this type of architecture for RTGS.

8. What other approaches, not explicitly considered in this notice, might help achieve the broader goals of ubiquitous, nationwide access to faster payments in the United States?

It is critical for wide-scale adoption that the users of the RTGS system are comfortable with the type and amount of data that is being collected on them, who controls that data, and who uses of that data. Outreach efforts should be undertaken to make it clear to the public that the Government will not have access to the raw customer information so that individuals become confident in the system. The business community should be informed about RTGS' benefits related to risk and cost reduction, and operational efficiencies gained by the straight-through-processing of purchase information. Additionally, the Federal Reserve should demonstrate to



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Congress that the RTGS system is designed to securely handle the payment messages while not allowing the mass collection of individuals' information.

Separate handling of the clearing and settlement data is required for the RTGS system to be successful. The limited amount of transaction data that the Federal Reserve has access to in the current payment systems does not pose a significant threat to civil liberty. However, given the expected uses of RTGS, the goal of its ubiquity in society, and the ever-increasing detail of data that is transmitted by payment systems, the RTGS system will contain far more potentially-sensitive information than the current systems.

By maintaining the FedLine network and the reserve account balances the Federal Reserve will meet its objectives to provide a safe, sound, and efficient payment service. The depository institutions will have access to the customer information they require and will all have equitable access through FedLine. Using this approach, the RTGS system will satisfy all the mandates for payments services while avoiding any issues with infringement on civil liberties.

DisLedger Ltd. looks forward to continuing our discussions related to the development of an RTGS system and is available to provide any additional information or clarifications needed.

Sincerely,

Dan Conner
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