

December 10, 2018

Via Electronic Submission

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

RE: Actions to Support Interbank Settlement of Faster Payments
Docket Number OP-1625

Dear Sir or Madam,

Commerce Bancshares, Inc. ("CBI") is a regional bank holding company with one bank subsidiary, Commerce Bank ("Commerce"), and total assets of \$25.1 billion as of September 30, 2018. Commerce is a full-service bank with 172 branches in Missouri, Illinois, Kansas, Oklahoma, and Colorado offering a diversified line of financial services including business and personal banking, wealth management and estate planning, and investments through its affiliated companies. A full suite of banking services, including electronic payments, investment management, and securities brokerage are also offered. CBI has operating subsidiaries involved in mortgage banking, credit related insurance, venture capital, and real estate activities.

Commerce appreciates the opportunity to comment on the potential actions of the Federal Reserve Bank to develop a service for 24x7x365 real-time interbank settlement of faster payments and a liquidity management tool that would enable transfers between Federal Reserve accounts on a 24x7x365 basis to support services for real-time interbank settlement of faster payments, whether those services are provided by the private sector or the Federal Reserve Banks.

- 1) *Is RTGS the appropriate strategic foundation for interbank settlement of faster payments? Why or Why not?*

Commerce believes the role of the Federal Reserve in providing payment services is to promote the integrity and efficiency of the payments mechanism and to ensure the provision of payment services to all financial institutions on an equitable basis, doing so in an atmosphere of competitive fairness. In today's current landscape, while many faster payment solutions exist, predominately serving person to person (P2P) payments, there appears to be only one interbank settlement for these services, largely conducted through existing services provided by the

Reserve Banks and, in one case, is performed using a private sector-owned settlement ledger that is backed by funds in a “joint account.”

The use of a joint account provides no benefit in the form of interest bearing or reserve requirements to the participating banks of the joint account for excess balances, nor do the participating banks have direct visibility, in real-time, into the joint account related to their portion of the funds held within the joint account.

Commerce believes that a real-time gross settlement system (RTGS) is the appropriate strategic foundation for interbank settlement of faster payments and provides clear benefits from a risk and efficiency perspective compared to a deferred settlement solution, making it the preferred solution for settling faster payments in the U.S. over the long-term.

2) *Should the Reserve Banks develop a 24x7x365 RTGS settlement service?*

Given the limited faster payments options designed to serve the needs of financial institutions and their customers, Commerce supports the Fed developing a 24x7x365 RTGS settlement service, as a network operator, that provides to the public sector a competitive option for all financial institutions – large, medium, and small.

In today’s environment, having a single option, owned by the banking industry’s largest financial institutions, is not a competitive free-market solution.

Additionally, the Fed, in its unique role and connectivity with all financial institutions, can bring resiliency and stability to the financial markets during a crisis that a single private sector solution provider cannot.

3) *If the Reserve Banks develop a 24x7x365 RTGS settlement service,*

a.) Will there be sufficient demand for faster payments in the United States in the next ten years to support the development of a 24x7x365 RTGS settlement service? What will be the sources of demand? What types of transactions are most likely to generate demand for faster payments?

Over the next ten years, Commerce believes there will be sufficient demand for faster-payments in the U.S. to support the development of a 24x7x365 RTGS settlement service. This belief is based on the volume of payments and the year-over-year growth of real-time payments in countries who have implemented a faster-payment solution. A key component of the year-over-year volume growth for countries who have a faster-payment solution in place is coupled with the per transaction dollar amount allowed within their country’s faster-payments solution. As countries raised the allowable per transaction amount, more volume transitioned to the faster-payment rails.

The source of demand for faster payments will come from both consumer and business customers. Consumers already utilize solutions that promote faster payments to initiate person to person payments, account to account transfers, bill payments, and to respond to requests for payment from billers. Consumers have gravitated to solutions that are fast, provide immediate availability of funds to the receiver, and provide a consistent end-user experience. Businesses will benefit from faster payments by being able to make urgent invoice payments, emergency payroll, immediate tax payments, and to respond to suppliers' requests for payment. Businesses also desire a faster payment schema that is rich in data that promotes the ability to easily reconcile invoice to order to payment detail.

Initially, Commerce believes consumer person to person payments will generate the highest demand for faster payments, followed by consumer to business payments.

b.) What adjustment would the financial services industry and its customers be required to make to operate in a 24x7x365 settlement environment? Are these adjustments incremental or substantial? What would be the time frame required to make these adjustments? Are the costs of adjustment and potential disruption outweighed by the benefits of creating a 24x7x365 RTGS settlement service? Why or why not?

To operate in an 24x7x365 settlement environment, Commerce believes there needs to be availability to funding during nonstandard business hours. In addition to the RTGS system being available over weekends and holidays, there would need to be an active and liquid fed funds market every day of the week and possibly into the evening hours along with daily access to the Fed Discount Window. The timeframe to make these adjustments would be incremental, utilizing a liquidity management tool in the near term for funding needs during nonstandard business hours and moving towards an open fed funds market to handle funding needs.

The costs of adjustment and potential disruption do not outweigh the benefits of creating a 24x7x365 RTGS settlement service.

c) What is the ideal timeline for implementing a 24x7x365 RTGS settlement service? Would any potential timeline be too late from an industry adoption perspective? Would Federal Reserve action in faster payments settlement hasten or inhibit financial services industry adoption of faster payment services. Please explain.

Commerce believes the ideal time for implementing a 24x7x365 RTGS settlement service is within the next 18-24 months. Failure to do so will continue to paralyze the industry from moving forward with adopting a faster-payments strategy or solution. Today, many financial institutions are waiting on the sidelines until the Fed declares its role, if any, within the faster-payments ecosystem.

- d) *What adjustment (for example, accounting, operations, and agreements) would banks and bank customers be required to make under a seven-day accounting regime where Reserve Banks record and report end-of-day balances for each calendar day during which payment activity occurs, including weekends and holiday? What time frame would be required to these to these changes? Would banks want the option to defer receipt of such information for nonbusiness days to the next business day? If necessary changes by banks represent a significant constraint to timely adoption of seven-day accounting for a 24x7x365 RTGS settlement service, are there alternative accounting or operations solutions that banks could implement?*

Commerce believes there would be adjustments to internal accounting systems and interfaces, operations, and correspondent banking agreements for a seven-day accounting regime. The timeframe required to make these changes would be 18-24 months.

- e) *What incremental operational burden would bank's face if a 24x7x365 RTGS settlement service were designed using accounts separate from banks' master accounts? How would the treatment of balances in separate accounts (for example, ability to earn interest and satisfy reserve balance requirements) affect demand for faster payment settlement?*

Commerce believes the incremental operational burden for 24x7x365 RTGS settlement service designed using accounts separate from banks' master accounts would be the ability to monitor all accounts needed to manage reserve requirements. Commerce would support the use of separate account(s) for faster payments from the Banks' master account provided excess balance(s) can earn interest and are incorporated into reserve requirements.

- f) *Regarding auxiliary services or other service options,*
i. *Is a proxy database or directory that allows faster payment services to route end-user payments using the recipient's alias, such as e-mail address or phone number, rather than their bank routing and account information, needed for a 24x7x365 RTGS settlement service? How should such a database be provided to best facilitate nationwide adoption? Who should provide this service?*

Yes, Commerce believes that some type of proxy database or directory service will be needed to support faster payments in the U.S., provided the information maintained in the database is accurate and there are procedures in place to both validate and edit information maintained within the database when necessary.

To facilitate nationwide adoption, each network operator within the faster-payments ecosystem should utilize the same directory service.

The directory service should be provided by an industry trusted partner such as the Federal Reserve Banks or a similarly situated trusted partner.

- ii. *Are fraud prevention services that provide tools to detect fraudulent transfers needed for a 24x7x365 RTGS settlement service?*

Yes, fraud prevention services that provide tools to effectively detect fraudulent transfers are needed within the faster payments ecosystem, regardless if the Fed deploys a 24x7x365 RTGS settlement service or not.

- iii. *How important are these auxiliary services for adoption of faster payment settlement services by the financial services industry? How important are other service options such as transaction limits for risk management and offsetting mechanisms to conserve liquidity? Are there other auxiliary services or service options that are needed for the settlement service to be adopted?*

Both directory and fraud prevention services are extremely important for the adoption of faster payment settlement services by the financial services industry. Initial transaction and velocity limits for risk management and offsetting mechanisms to conserve liquidity may be needed. Eventually as faster payments become mainstream, transaction limits will need to be raised and offsetting/netting will need to be adjusted to reach ubiquity and to add value to end-users of the faster payments ecosystem.

- g) *How critical is interoperability between RTGS services for faster payments to achieving ubiquity?*

Commerce believes interoperability between the various real-time payment solution providers is critical to achieving ubiquity. A real-time payment solution should have the capability to securely and safely pay anyone, anywhere, at any time, and with immediate funds within the U.S., regardless of the real-time payment solution provider the financial institution has selected as its solution partner.

- h) *Could a 24x7x365 RTGS settlement service be used for purposes other than interbank settlement of retail faster payments? If so, for what other purposes could the service be used? Should its use be restricted and, if so, how?*

Over time, Commerce would like to see other payment channels (i.e. ACH -both debit and credit batched items) move from a delayed net settlement system (DNS) to a Real-Time Gross net settlement system.

- i) *Are there specific areas, such as liquidity management, interoperability, accounting processes, or payment routing, for which stakeholders believe the Board should establish joint Federal Reserve and industry teams to identify approaches for implementation of a 24x7x365 RTGS settlement service?*

Commerce supports the Board establishing joint Federal Reserve and industry teams to identify approaches for implementing a 24x7x365 RTGS settlement service that would include areas such as liquidity management, interoperability, accounting processes, or payment routing (directory services) for the industry.

- 4) *Should the Federal Reserve develop a liquidity management tool that would enable transfers between Federal Reserve accounts on a 24x7x365 basis to support services for real-time interbank settlement of faster payments, whether those services are provided by the private sector or the Reserve Banks, Why or why not?*

Yes, Commerce supports the Federal Reserve developing a liquidity management tool that would enable transfers between Federal Reserve accounts on a 24x7x365 basis to support services for real-time interbank settlement of faster payments provided those services are provided by the Reserve Banks, as well as offered by the private sector. As payments continue to move faster, the liquidity management tool should have the capability to provide real-time alerts, as well as access to a discount window to resolve funding issues or the ability to resolve overdrafts by utilizing a line of credit or collateral held by the Federal Reserve system.

- 5) *If the Reserve Banks develop a liquidity management tool,*
- a. What type of tool would be preferable and why?*
 - i. A tool that requires a bank to originate a transfer from one account to another*
 - ii. A tool that allows an agent to originate a transfer on behalf of one or more banks*
 - iii. A tool that allows an automatic transfer of balances (or "sweep") based on pre-established thresholds and limits*
 - iv. A combination of the above*
 - v. An alternative approach*

The tool should be an online tool that would be accessible via a portal and/or mobile device that is flexible to allow a bank or an agent, who acts on behalf of one or more banks, to transfer funds from one Fed account to another Fed account or joint account. Additionally, the tool should allow a bank or an agent to perform automatic transfer of balances based on pre-established thresholds and limits.

- 6) *Should a 24x7x365 RTGS settlement service and liquidity management tool be developed in tandem or should the Federal Reserve pursue only one, or neither, of these initiatives? Why?*

Commerce supports the Federal Reserve pursuing both a 24x7x365 RTGS settlement service and liquidity management tool, and believes they should be developed in tandem to support faster-payments in the U.S.

- 7) *If the Federal Reserve pursues one or both of these actions, do they help achieve ubiquitous, nationwide access to safe and efficient faster payments in the long run? If so, which of the potential actions, or both, and in what ways?*

Commerce believes the Federal Reserve Banks, in their roles as a catalyst and convener, should pursue both actions (RTGS and liquidity management tool) in tandem, as they would assist in helping the industry achieve ubiquitous, nationwide access to a safe and efficient faster

payments ecosystem in the long run. Without the Fed providing a faster payment solution, Commerce believes many financial institutions will continue to stand on the sideline and will be reluctant to partner with the private-sector faster payments solution provider currently in the marketplace.

Commerce feels having one faster-payment solution, owned by our competitors (the Top 25 banks in the U.S.), does not represent a competitive free market. Lastly, Commerce has reservations about placing funds in a joint account where interest is not paid and excess balances in the joint account is not applied to a bank's reserve requirement.

- 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?*

None.

- 9) *Beyond the provision of payment settlement services, are there other actions, under its existing authority, the Federal Reserve should consider that might help its broader goals with respect to the U.S. payment system?*

Beyond RTGS settlement and a liquidity management tool, the Fed should consider a role as a faster-payments network operator and provide financial institutions with standard message formats necessary for both consumers and businesses to send and receive faster payments.

Also, the Fed, in its regulatory role, should review current regulation and incorporate faster payments as a payment type to ensure 1) Federal Government Agencies can utilize faster payments for both business and consumer payments; and 2) consumers receive the same or comparable protections when sending/receiving faster payments afforded to them by other types of electronic payments under Regulation E.

As the Fed evaluates its role(s) within the faster payment ecosystem, a key feature with a directory, is the ability for the payor, whether consumer or business, to choose their payment method or funding account.

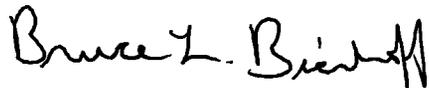
Additionally, the Fed should take an active role in providing fraud prevention tools and offering a directory service for use during solution enrollment and/or during the transfer to authenticate the parties involved as part of participation in the faster payments ecosystem. Commerce supports a directory capable of associating a customer's identity with their payment credentials and with the device utilized during enrollment. At a minimum for security purposes, device assessment should include device ID validation, carrier and device ID matching, and monitoring for SIM card swapping. Also, as the Fed evaluates its role(s) within a directory service, a key feature is providing the -solution provider with flexible payment acceptance/routing options (i.e. Fed, ACH, TCH, Zelle', Card Networks, etc.) to ensure faster payment solutions are interoperable with the various solution providers within the market-place.

Also, Commerce would support the Fed developing standard guidance and/or *Rules* related to party liability associated with disputed transactions within the faster-payments ecosystem. With various solution providers and processes already in the market-place, it is imperative that

standards and/or *Rules* be developed for handling disputed transactions that are fair and equitable to the end-user.

In closing, Commerce would like to thank the Federal Reserve System for the opportunity to comment on the Federal Reserve actions to support interbank settlement of faster-payments related to the possible development of a RTGS system and the development of a liquidity management tool to support 24x7x365. If the Fed continues with these development efforts, Commerce would support moving forward with both options in tandem, with the goal to make a gradual transition to RTGS, provided a liquidity management tool is available and operational. It will be important for the Fed to communicate its intentions to the industry as soon as possible so financial institutions and service providers continue to move forward with developing and implementing their real-time payment strategies based on the needs of their customer base.

Sincerely,

A handwritten signature in black ink that reads "Bruce L. Bienhoff". The signature is written in a cursive style with a large initial "B" and a distinct "L" and "B".

Bruce L. Bienhoff, CTP
Senior Vice President
Director of Commercial Products