



1999 Bryan Street
Suite 950
Dallas, TX 75201

1-800-475-0585
www.epayresources.org

December 13, 2018

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

RE: Docket No. OP-1625

ePayResources appreciates the opportunity to comment on behalf of our member financial institutions on Docket No. OP-1625, the Request for Comment on potential Federal Reserve actions to support interbank settlement of faster payments. ePayResources is a Regional Payments Association that has been empowering financial institutions and businesses to be informed, compliant, and competitive in payments for forty years, by providing expertise, professional development, and industry leadership.

Our response is based on interviews of member financial institutions of various asset sizes, from large banks to community financial institutions. We observed a distinct split of opinion on whether the Reserve Banks should develop a 24/7/365 RTGS service. Financial institutions of small to medium asset size are generally in favor of the Reserve Banks developing an RTGS service, and larger financial institutions are generally not in favor of that potential action. Our respondents agree on the need for robust liquidity management tools regardless of who provides the settlement service, and that interoperability with other RTGS services is mission-critical. Detailed responses to the specific questions contained in the Request for Comment follow below.

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

ePayResources member institutions of all sizes agree that a real-time gross settlement process is important to the industry and is the appropriate strategic foundation for interbank settlement of faster payments.

2) **Should the Reserve Banks develop a 24x7x365 RTGS settlement service? Why or why not?**

Community financial institution members feel that the Reserve Banks should develop a 24x7x365 RTGS settlement service and should be more proactive in that space.

Larger member institutions feel that while competition is healthy, and it is desirable for financial institutions to have choices, the Fed should not develop an RTGS service for the following reasons:

Unnecessary duplication: A Fed solution would be an unnecessary duplication of the current private sector service, specifically RTP from The Clearing House. While community financial institutions may have a higher comfort level with an RTGS solution offered by the Fed, ubiquity requires a critical mass of transaction volume, which will only be driven by the larger financial institutions, which have already committed to RTP.

Prohibitive cost: It will be costly for financial institutions to connect to multiple RTGS solutions if interoperability is not achieved. If core providers must update systems to accommodate a Fed solution after updating for the current private sector solution, the pass-along cost may be prohibitive to community financial institutions.

Delayed ubiquity: Ubiquity may be significantly delayed if the Fed pursues development of an RTGS solution. Community financial institutions may wait to adopt, which would impact the timing of ubiquity for all financial institutions.

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?**

This is a difficult prediction to make. Fintech solutions like Venmo, PayPal, and Zelle are addressing current consumer demand, although a Federal Reserve RTGS service could bring needed consistency and standards to faster P2P payments. With Wire and Same Day ACH providing ad-hoc solutions, adoption of faster payments among B2B clients is slow, with only certain segments showing significant interest. Greater efficiency and a more seamless process are the real drivers for financial institutions and their customers.

b) **What adjustments 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?**

Significant adjustments to systems and staffing are required to operate in a 24x7x365 settlement environment. Some financial institutions are already making these adjustments to implement the current private sector solution. Duplicating the cost of these adjustments to accommodate dual systems is undesirable. Our members estimate two years would be required to make these adjustments.

- 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 payment settlement hasten or inhibit financial services industry adoption of faster payment services? Please explain.**

According to our larger financial institution members, the ideal timeline for implementing a 24x7x365 RTGS service would support the U.S. Faster Payments Task Force's vision for a payment system that is faster, ubiquitous, broadly inclusive, safe, highly secure, and efficient by 2020. As detailed in the answer to question 2, larger member institutions feel that the development of an RTGS service by the Federal Reserve would significantly delay adoption and ubiquity beyond the 2020 goal. Community financial institutions noted that while any potential timeline presents a disadvantage in that disruptors are already in place, they feel that Federal Reserve action in faster payment settlement would ultimately hasten adoption. These smaller institutions felt that a more realistic time frame is 2 – 3 years.

- d) What adjustments (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 holidays? What time frame would be required to make 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 operational solutions that banks could implement?**

Consumer customers would have to make minimal adjustments, as mobile banking and payment services like PayPal, Venmo, and Zelle provide them a virtual 24/7 payments environment currently. Accounting, reconciliation, and staffing adjustments are expected to be significant for financial institutions and their commercial customers. Any new payments rail presents a learning curve for managing cash positions, and community financial institutions in particular would look to the Fed for guidelines in this regard. Some institutions noted that having the option to defer receipt for nonbusiness days to the next business day would facilitate ubiquity. Prefunding using the business day settlement method could offer an alternative accounting solution to seven-day accounting.

- e) What incremental operational burden would banks 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?**

Financial institutions would expect settlement accounts to be interest bearing and to count towards liquidity requirements. For institutions using both a private sector solution and a Fed RTGS service, maintaining reserve balance requirements in multiple real-time settlement accounts would present a significant operational burden, particularly for community financial institutions.

- 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?**

A proxy database or directory could be an important data security and fraud prevention tool for an RTGS service. While some members feel that the Fed should provide this service, others feel that additional detail is needed to adequately weigh the benefits of a proprietary directory as opposed to sending participants using a directory service of their choosing, as with the current private sector solution.

- ii) Are fraud prevention services that provide tools to detect fraudulent transfers needed for a 24x7x365 RTGS settlement service? How should such tools be provided? Who should provide them?**

Fraud prevention tools would be critical components of an RTGS service. The role of the Federal Reserve in fraud prevention of an RTGS service should be supplemented by tools implemented independently by participating financial institutions.

- 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?**

Auxiliary services addressing fraud prevention, data security, risk management, and liquidity management would be critical to successful adoption of an RTGS service.

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

Interoperability between RTGS services is mission-critical to achieving ubiquity. It will be costly for financial institutions to connect to multiple services. If core providers must update systems to accommodate a Fed solution after updating for the private sector service, the pass-along cost may be prohibitive to community financial institutions.

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?

The settlement service could potentially be used for the ATM network and wholesale payments, should use cases support either.

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?

Institutions not in favor of the Federal Reserve developing an RTGS service feel that the Fed's time and influence would be better spent participating on industry teams that work towards supporting ubiquity of the current private sector solution rather than working on a competing service. Institutions supporting the Federal Reserve developing an RTGS service feel that any task forces deemed necessary should be expedited so as not to delay the solution. It was acknowledged that interoperability and ubiquity can be approached more quickly if there is cooperation by design early in the development process.

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, the Federal Reserve should develop a robust liquidity management tool to support real-time interbank settlement of faster payments, regardless of who provides the settlement service.

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

A combination of tools is preferred, as each will have applicability under different circumstances.

- b) **Would a liquidity management tool need to be available 24x7x365, or alternatively, during certain defined hours on weekends and holidays? During what hours should a liquidity management tool be available?**

Ideally a liquidity management tool would be available 24x7x365.

- c) **Could a liquidity management tool be used for purposes other than to support real-time settlement of retail faster payments? If so, for what other purposes could the tool be used? Should its use be restricted and, if so, how?**

A liquidity management tool could be used to manage other Fed accounts.

- 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?**

Community financial institutions feel that the Federal Reserve should develop an RTGS service in tandem with a liquidity management tool. Larger institutions feel that the Federal Reserve should pursue developing a liquidity management tool that supports real-time interbank settlement of faster for any private sector service. These larger institutions believe that the Federal Reserve should not pursue the development of an RTGS service, for the reasons detailed in the response to question 2.

- 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?**

Community financial institutions feel that both actions will help achieve ubiquitous, nationwide access to safe and efficient payments in the long run. Larger institutions believe that developing a liquidity management tool will help achieve this goal, by relieving financial institutions of some of the burden presented by the accounting and operational adjustments necessary for adopting real-time payments.

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?

If the Federal Reserve pursues development of an RTGS service, it is imperative that they develop interoperability with RTP that benefits all participants.

9) Beyond the provision of payment and 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?

The Federal Reserve can add significant value by implementing ongoing awareness campaigns to payments systems stakeholders and by supporting the efforts of the Regional Payments Associations to educate financial institutions. Some institutions raise the point that the Federal Reserve should drive adoption, and therefore ubiquity, through mandates and price incentives, as with Check 21.

We also urge the Board of Governors to consider that the proposed service enhancements should not be limited only to real-time (i.e. instant) payments and are important to other payments rails. In keeping with Federal Reserve policy, we believe that settlement, directory, liquidity management, and other related services should support all payment channels.

Thank you for this opportunity to comment. We are available to provide any clarifications to our response that may be requested.

Sincerely,

A handwritten signature in cursive script that reads "Laura Steele".

Laura Steele, AAP
President and CEO
ePayResources
1-800-475-0585 ext. 1001