



December 13, 2018

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

Submitted via Email: regs.comments@federalreserve.gov

RE: Docket No. OP – 1625 – Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments

Dear Ms. Misback,

On behalf of Minnesota's credit unions, please accept this correspondence in response to your request for information regarding potential actions by the Federal Reserve (Fed) to support interbank settlement of faster payments. The Minnesota Credit Union Network (MnCUN) represents the interests of Minnesota's 108 credit unions and their more than 1.7 million members. We thank you for the opportunity to provide a response on this matter.

We support the Fed taking action in this area. However, there are many questions yet to be answered and concerns that need addressing.

One of the questions/concerns our credit unions have is: What will it cost to participate? If the Fed wishes to achieve ubiquity in any faster payments system, it will need the participation of both large and small financial institutions (FIs). To be feasible for smaller FIs, participation must be affordable. We are concerned about the potential costs. There will be technological costs to update cores, other processing systems and software, including any liquidity management tools needed. We encourage the Fed to continue gathering feedback from core, and other software, providers on what technological changes will be required and what the costs will be for those changes.

There is also likely to be increased staffing costs. Although many processes can be automated, it's unlikely the need for human intervention could be completely removed from the equation. With 24x7x365 settlement processing, it's likely 24x7x365 staffing will be necessary. Not only will 24-hour transaction monitoring be needed, but FIs might also need to staff treasury management professionals. It's unlikely many smaller FIs have any treasury management professionals currently on staff. Although it's possible these processes can be outsourced, that too will come at a cost. It will also mean increased risk as FIs put liquidity management in the hands of third-parties. This leads to our next concern - risk.

There are several risks in moving to real-time interbank settlement that should be considered. One of the risks is liquidity management. If interbank settlement is taking place in real-time (possibly instantaneously), there will be at least some loss in liquidity control. This raises concerns as to how FIs will balance their accounts with the Fed and whether there will be an increase to daylight overdrafts and the associated costs and fees. This problem could be exacerbated in a "Deferred Net Settlement" system because a depositor would have access to received funds prior to the credit union receiving the funds from the other FI involved in the transaction. How will the Fed mitigate that risk? Presumably, this is why the Fed is proposing a "Liquidity Management Tool." But how will such a tool function and what will it cost? Will the liquidity management tool completely eliminate the need to have staff on hand 24x7x365 or the possibility of daylight overdrafts?

Another risk is fraud. It cannot be ignored that (at least in some ways) real-time settlement benefits fraudsters, who will now have faster access to the funds they abscond. This risk must be accounted for and mitigated in some way. There is also risk in making sure funds are being sent to the correct FI and that any applicable BSA and OFAC requirements are met. If transactions are happening 24x7x365, will they be monitored by the Fed for fraud and errors on that same basis? Additionally, how feasible is it to monitor interbank transactions that are occurring instantaneously?

We understand that faster payments is the direction things are heading and are supportive of the Fed acting in this area. However, the Fed is correct in identifying ubiquity as being a critical factor in the success of any faster payments system. To achieve ubiquity, a faster payments system must be cost and risk effective for FIs of all sizes. There are many questions and concerns that need to be answered and addressed, some of which we have identified in this letter. We hope you will find this helpful as you work through your process. Thank you for the opportunity to comment. If you have any questions about our comments, please contact me at (651) 288-5517.

Sincerely,

A handwritten signature in blue ink that reads "Tim Tacheny". The signature is written in a cursive, slightly slanted style.

Tim Tacheny
General Counsel
Minnesota Credit Union Network