



Submitted Via Electronic Filing

December 13, 2018

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

Re: Comment on Faster Payments Settlement Assessment
Docket Number OP-1625

Dear Ms. Misback,

On behalf of Ohio's 270 credit unions, the Ohio Credit Union League (OCUL) is writing to respond to the Federal Reserve's request for comments regarding potential actions the Federal Reserve could take to support a faster payments system and interbank settlement.

OCUL appreciates the work the Federal Reserve and the Faster Payments Task Force, including Ohio's own Corporate One FCU, have conducted thus far. The Federal Reserve correctly recognizes the importance of developing and maintaining a faster payments system that provides innovation and convenience to the end user, particularly through its new work on the Strategies for Improving the U.S. Payment System's initiative and the formation of its Faster Payments Task Force and most recently council. OCUL remains excited about the prospect of a faster payments system in the United States.

OCUL supports RTGS as the appropriate foundation

The current request for comments asks whether the real time gross settlement (RTGS) is the appropriate foundational system for the future of a faster payments network. The RTGS system is predicated upon the idea that consumers could make payments (transfers between Federal Reserve accounts) on a 24x7x365 basis. OCUL and our member credit unions support a system that reflects a sophisticated economy and modern day practices.

While there are many valid reasons to support a faster payments system in the United States, to be a global innovator this country must have a faster payments system that is ubiquitous and futuristic in its design as many other countries have already established real-time payments.¹ As the Federal Reserve is aware, the distinction between real-time payments is whether the interbank settlement actually occurs in real-time. For certain existing person-to-person or business-to-person payments, those payments are not actually happening in real-time because financial institutions process them on legacy systems which do not update instantaneously or there is a lag in the settlement between the two financial institutions. This is precisely why OCUL supports a RTGS system to ensure that faster-payments are indeed faster (occurring in real time).

¹ In 1973, Japan introduced real-time payment; Turkey in 1992; Brazil in 2002; and South Africa in 2006.





A RTGS system that actually encompasses real-time interbank settlement would allow the end-user to schedule an inter-bank settlement. As the proposal correctly notes, often times there is a delay in funds, particularly as it relates to bill payment. A truly ubiquitous system would allow a consumer to schedule a payment to occur at the exact hour and minute of a certain day which would instantly process and result in immediate inter-bank settlement. Essentially, real-time payments could become automatic and would not require a consumer to initiate a payment during the inter-bank settlement time frame.

Other Considerations

OCUL urges the Federal Reserve to consider the operational challenges financial institutions may face when converting to a 24x7x365 system. Unlike the retail industry or hospitality industry, the financial services industry is not accustomed to operating 7 days a week. Even with this limitation in mind, OCUL and our member credit unions believe this hurdle can be overcome through leveraging new technology and/or trusted service providers (corporate credit unions are one sound illustration). We believe the corporate credit union or service provider illustration surfaces positive opportunities as the Federal Reserve explores the RTGS system:

- Like with other services provided by the Federal Reserve, financial institutions should have the option of either having an account directly with the Federal Reserve or utilizing a corporate credit union or other financial institution, which holds an account with the Federal Reserve, as an expert aggregator;
- The Federal Reserve and corporate credit unions should study the viability of allowing corporates to have instant accounting opening with the Federal Reserve to better facilitate faster payments; and,
- The Federal Reserve should collaborate with corporate credit unions to identify operational challenges of the 24x7x365 platform in order to identify technologies, systems, and best practices which may contribute to a solution.

Liquidity Management Tool

Because the RTGS initiative would decrease the time between interbank settlements, the existing credit risk would be exchanged for a liquidity risk, as institutions would need to maintain certain levels of liquidity to ensure faster payments are processed and settled. OCUL believes the exchange of the credit risk for the liquidity risk is an appropriate tradeoff. For institutions who are 100 percent loaned out, the liquidity risk would be more demanding. However, with the proper liquidity management tools and resources, a liquidity risk is manageable.

OCUL believes it would be fruitful for the Federal Reserve to explore liquidity management tools. Specifically, liquidity management tools could be spearheaded by financial institutions and their service providers, fintech companies, core processing companies, or another company with competencies in liquidity management, information security and payment technology. Conceptually, a liquidity management tool would manage various liquidity levels of accounts held at the Federal Reserve or perhaps an aggregator, ensure levels stay within a certain threshold, and transfer funds from a reserve account to a faster payment account.

The Federal Reserve Must Work with Other Agencies





OCUL echoes the sentiments of the Faster Payments Task Force and urges the Federal Reserve to evaluate laws and regulations which affect payments and the payment service industry. Specifically, OCUL believes it is necessary for the Federal Reserve to work with other federal agencies to identify these payment regulations and laws and to create a guidance as to how the implementation of faster payments would be affected by these regulations and laws.

Critical existing laws and regulations to study and consider are:

- The Bank Secrecy Act, specifically currency transaction threshold reports;
- Office of Foreign Assets Control's sanctions list search;
- Federal Trade Commission regulations and guidance as it relates to unfair and deceptive acts and practices and general consumer protection regulations in relation to non-bank entities;
- Regulation E; and
- Regulation C.

For a comprehensive list of all laws and regulations affecting various payments types, see Part 1 of the Faster Payments Task Force Report.²

Conclusion

We appreciate the Federal Reserve's commitment to engage with interested parties and industries. We urge the agency to continue to engage with all interested parties, especially credit unions, as the agency continues to work towards a RTGS system. We applaud the outreach the Federal Reserve did to bring awareness to this request for comment as well. OCUL and our member credit unions look forward to working with the agency in the future. Please reach out to us at (800) 486-5024 if you have comments or questions regarding points articulated in this letter.

Sincerely,

Handwritten signature of Paul Mercer in black ink.

Paul Mercer
President

Handwritten signature of Miriah Lee in black ink.

Miriah Lee
Regulatory Counsel

² Faster Payments Task Force, The U.S. Path to Faster Payments: Part One (January 2017) page 55, available at <https://fasterpaymentstaskforce.org>.

