



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

RE: Docket number PO-1625
Comments on potential actions to facilitate real-time interbank settlement of faster payments and liquidity management tool

Dear Ms. Misback,

We are pleased that the Federal Reserve is interested in developing a 24x7x365 real-time gross settlement (RTGS) service and that you are seeking comments for this application and the liquidity needs it will require.

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

Yes, the RTGS described by the Federal Reserve would help consumers, businesses and settlement agents to avoid inherent settlement risk in the current system.

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

Yes, the Reserve Banks should develop a 24x7x365 RTGS settlement service for many reasons:

- The private sector could not attain a system that is ubiquitous and open to all;
- Private sector solutions using crypto currency would contain settlement risk;
- The private sector would not have the unique liquidity capabilities that a central bank can offer; and
- The Federal Reserve already has settlement, notification and liquidity services in place that could be enhanced more readily than a start-up solution.

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?

The question of a faster payment system is not “if” but “when” it will happen as many private vendors are already developing their own systems. Businesses will be the main source of demand for faster settlement; however, consumers aren’t far behind due to increasing use of fast speed on-line

purchases. Europe has already developed a faster payment system. With the US lagging in response to their lead, the system overseas places additional need on international faster payments.

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?

Adjustments within the financial services industry would be substantial; from liquidity issues, to additional back office hours and staffing, to vendor agreements and programming of both core systems and integrations. The most pressing issue is managing liquidity needs. Again, this is something the Federal Reserve would be more attuned to managing across multiple industries.

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.

Regardless of the final timeline set, the Federal Reserve leadership would be key to success. This leadership could set up regulatory mandates which would help speed up changes to processing vendors. Once the method is formalized and regulatory changes are in place, it would seem a two year lead-time would be needed to accommodate financial institutions and vendors alike.

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 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?

- Customer support and IT support hours would need to be expanded;
- Revisions to core systems would be required including increasing transaction capacity, as would agreements and processes with transaction based vendors, and customer disclosures and agreements;
- Reconciliations would become more complex and require additional automation;
- Security costs and concerns would rise due to increased 'live' settlement times;

- But again, the largest adjustments and costs would be due to liquidity issues, this could also affect earnings due to changes in overnight liquidity. This alone would require significant efforts by the Federal Reserve and financial institutions; and
- Regarding the question of banks opting out, yes, smaller institutions who may not have correspondent services and readily available liquidity solutions may choose to opt out.

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?

If a system is created with two separate accounts, it would require a tool to sweep balances during non-business hours to prevent overdrafts. Both accounts should draw interest in order to prevent a decline in earnings; especially since additional funds will be required overnight in order to fund settlements. Reserve requirements should be considered on total balances, and a liquidity solution should be available in order to fully automate the new system.

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 centralized database is necessary to facilitate interoperability of disparate faster payments systems. To best facilitate this auxiliary service, the Federal Reserve should perform this role. The Federal Reserve has the capability of reaching the entire landscape of U.S. financial institutions, and extending that capability to include other financial services firms that need access to supply and retrieve information from the directory. In addition, the Federal Reserve has a proven track record of high levels of security, breeding confidence in the industry as a whole. Given the confidential nature of the information that would be required in the directory, the Federal Reserve could ensure confidentiality and security to the industry as a whole.

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 detection and prevention tools would be desirable. If the Federal Reserve offers the RTGS solution discussed in this proposal, the Federal Reserve would then be the singular entity having access to all transactions flowing through the RTGS service, thus enhancing its ability to provide fraud detection and prevention tools to the industry.

If not offered by the Federal Reserve, fraud prevention services would be provided by existing providers that have developed payment system fraud products. However, these providers do

not possess the unique ability to compile data from the entire payments landscape like the Federal Reserve does.

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

RTGS needs to be an open solution, available for everyone to benefit from faster settlement of payments. Interoperability managed by the Federal Reserve would help mitigate risk and enhance settlement between 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?

To keep the system safe, stable and less volatile, I would abdiccate for restriction of any type of crypto currency. International transactions could be settled through current Federal Reserve exchange systems. Additionally, FinCEN information may be improved by gathering and analyzing data at a federal level.

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?

Yes, the Federal Reserve has shown its ability to bring stakeholders from across the industry together to openly share in the responsibility of creating a safe and ubiquitous payments system. The Federal Reserve should continue in these efforts as the faster payments movement evolves.

Joint Federal Reserve and industry teams provide a level playing field for institutions of all sizes to come together to establish the framework and best practices necessary to implement a true shift in the payments landscape. As adoption continues to grow, task forces will be beneficial to create the regulatory framework, encourage interoperability, develop fraud mitigation tools, and liquidity solutions that are available and valuable to the network as a whole.

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, in developing a 24x7x365 settlement system, a liquidity tool would be required in order to prevent intra-day overdrafts. We encourage the Federal Reserve to develop a system that can be fully integrated and accessible to all. Developing a system that is readily available from the start will help speed up implementation of this new 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 basis of the corporate credit union system is to provide liquidity for our credit union members. As such, a combination which would allow corporates to continue working as agents and allowing sweeps for its member credit unions and providing a liquidity tool for overall intra-day and overnight settlements to allow for RTGS would be most desirable.

Alternatives could include a ledger system developed by the Federal Reserve or a cooperative for all stakeholders settled through the Fed with an ingrained liquidity system within. Possibly an automated fed funds settlement.

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?

In order to prevent intra-day and overnight overdrafts, the system should be available 24x7x365 – in line with settlement requirements.

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?

The corporate credit union system would be interested in opportunities to assist other corporates in providing for liquidity needs.

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?

To ensure a ubiquitous system, the Federal Reserve should develop both systems in tandem.

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?

Yes, action from the Federal Reserve ensures equal access to all financial institutions and creates a pathway for true ubiquity in the system. This would lead to higher levels of adoption than are currently seen through private sector solutions.

Safety in the system would be greatly enhanced through the RTGS action proposed by the Federal Reserve. This solution would mitigate credit risk that is innate in current deferred settlement solutions.

The liquidity tool would assist with relieving the burden of managing Fed accounts in a 24x7x365 environment.

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?

The Federal Reserve should continue to actively pursue industry collaboration in order to encourage interoperability and to develop the framework for security, operational best practices, and regulations that will be a necessary foundation in support of a faster payments environment.

The Bank Secrecy Act and OFAC regulations in place by the Treasury need to be addressed and exemptions may be required in order to facilitate a true faster payments network. Transaction interdiction screening and further due diligence required for BSA/AML scrutiny would unduly burden financial institutions and would, ultimately, slow the flow of transactions significantly.

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 must actively encourage adoption of faster payments in the industry. Beyond implementation of the RTGS system, liquidity management tool, and auxiliary services previously discussed, the Federal Reserve must not act only as a passive conduit for these transactions. Active involvement from the Federal Reserve will help ensure adoption by financial institutions, and, as a result, more adoption from society as a whole. This involvement from the Federal Reserve will aid in sustaining innovation within financial institutions, creating value and relevance for the system as a whole. Without these actions, and continued active participation from the Federal Reserve, financial institutions could continue to lose relevance as FinTech firms innovate beyond our current capabilities.

Again, thank you for the opportunity to comment.

Sincerely,



Jeffrey W. Merry,
President/CEO, Volunteer Corporate Credit Union