



December 14, 2018

Ann E. Misback, Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, NW, Washington, DC 20551

Re: Docket No. OP-1625, Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments

Dear Secretary Ann E. Misback:

The Association for Financial Professionals (AFP) appreciates the opportunity to respond to the request for comment issued by the Board of Governors of the Federal Reserve System regarding the development of a real-time gross settlement (RTGS) system for the United States. AFP is a professional society with 16,000 members and is committed to advancing the success of treasury and finance professionals and their organizations. AFP established and administers the Certified Treasury Professional (CTP) and Certified Corporate FP&A Professional credentials, which set standards of excellence in treasury and finance. Each year, AFP hosts the largest networking conference worldwide for over 6,500 financial professionals. As an active member of the former Faster Payments Task Force, and a representative for corporate end-users, AFP is pleased to provide feedback on this proposal.

AFP understands the need to modernize the U.S. payments infrastructure and strongly supports the Federal Reserve's efforts to reach the goal of a U.S. payment system "that is faster, ubiquitous, broadly inclusive, safe, highly secure and efficient by 2020," and one "in which competing solutions interoperate to meet the Effectiveness Criteria," as stated in the Faster Payments Final Report, Part 2.

The Federal Reserve is seeking comment on two potential services; a 24/7/365 real-time gross settlement (RTGS) system and a liquidity management tool to practically help facilitate the new service. From a corporate perspective, AFP strongly believes that:

- A new real-time gross settlement system has to be interoperable with other existing real-time payments services to avoid further fragmentation in the market that can be costly for corporates and inhibit implementation.
- A new real-time gross settlement system needs extensive capacity to carry standardized and/or open text remittance information along with the payment in order to facilitate straight-through processing.
- If transactions in a real-time gross settlement system are immediately irrevocable there needs to be a contingency measure dealing with human errors and mistakes and also with potential payments fraud.
- In order to support real-time gross settlement, there needs to be an auxiliary service such a database or directory that allows end-users to obtain counterparts' payment information and/or tokens, payment method and remittance information preferences.
- To ensure competition in the payments market, efforts should also be made to enhance legacy payments systems to allow them to process payments faster and more efficiently.
- A liquidity management tool that would allow financial institutions to transfer liquidity between Federal Reserve accounts outside of standard business hours would be beneficial and necessary to facilitate faster and more efficient payments in the United States.

Changes in the payments industry are challenging for corporate end-users as implementation of new infrastructures, training and new processes and procedures are costly and time consuming. It is therefore very important that when

corporate end-users build a business case for implementation of new systems and/or enhancements of existing systems, there is a certainty of sufficient efficiency and cost improvements. A new system also needs to have a long-term lifespan and be flexible enough to adopt technical enhancements in an industry that is rapidly developing. Any uncertainties will lead to delayed, postponed or no adoption of new systems. A wait-and-see approach is then a likely corporate stance to prevent unnecessary spending on new infrastructures.

#### A new real-time gross settlement system

Real-time payments that operate on a 24/7/365 basis bring benefits as well as challenges for corporate end-users. The challenges include back office capabilities to handle payments that may come in outside of regular business hours. Billing systems that are currently offered in the market are expensive and do not include capabilities for real-time payments. Therefore, additional investments will likely be required to benefit from a real-time system. One of the biggest challenges for corporate end-users is the growing fragmentation in the payments industry, particularly with the rise of new payments providers that can offer good services but do not have sufficient reach due to lack of interoperability between the systems. If a new RTGS system is developed but not interoperable with existing real-time payment infrastructure, there is great concern that the payments industry will be further fragmented. In a case where two real-time payments systems exist but are not interoperable, stakeholders, including corporate end-users, may have to make investments to facilitate both systems in order to reach their entire counterparty base. As this scenario is both costly and inefficient, corporate end-users will most likely not be able to build a business case for making the necessary investments, and thereby not implement a new system. Also, with two real-time payments systems that are not interoperable, billing system providers will have to add additional capacity to facilitate both systems. The extra cost will most likely be passed on to the corporate end-user.

#### Remittance information capacity

Corporate end-users are currently challenged by limited capabilities of transferring remittance information related to a payment along with the payment transaction. For a new RTGS service to offer sufficient efficiencies for corporate end-users to consider adoption and implementation, it needs to ensure extended capabilities for richer, structured and more detailed payment message data, including a format for extended remittance information.

#### Payments irrevocability

Mistakes and errors sometime happen when payments are processed. Real-time payments that settle immediately and are irrevocable could in such cases create problems when correcting the errors. Also, with faster payments comes faster payments fraud. Irrevocable fraudulent transactions present a new payments fraud threat that could discourage adoption and implementation of a new system. Therefore, contingency measures for handling these situations need to be developed.

#### Directory service

According to the 2016 AFP Electronic Payments Survey, one of the main barriers to adopting electronic payments for corporate end-users is convincing their business partners to move away from using checks. One of the reasons for this is a great reluctance to sharing sensitive bank and payment information with counterparties. To speed up transition from checks to electronic payments, including an auxiliary service such a database or directory that allows B2B end-users to securely obtain counterparties' payment information and/or tokens, choice of payment method and remittance information preferences, should be leveraged.

#### Faster legacy systems

For corporate end-users, it is very important to have a variety of payment methods available as each may serve different needs. Different payment methods in the marketplace also allow for competition and more pricing power for end-users. In order to improve the U.S. payments system, efforts should take a holistic approach that also addresses the efficiency and speed of legacy payment methods. Such improvements could include expansion of the National Settlement Service (NSS) operating hours and expanded remittance data capabilities.

#### Liquidity management tool

Since real-time payments systems that operate on a 24/7/365 basis also run outside of business hours and include weekends, there are considerable time periods where there could be potential liquidity shortfalls. A liquidity service that would provide financial institutions with a method to transfer funds between Federal Reserve settlement accounts outside the Fedwire operating hours would be beneficial to avoid potential disruptions to faster payments efforts in the United States. A way to bridge the gap between real-time payments services and business hours limitations could be achieved by extending the operating hours for the Fedwire Funds Service.

Thank you for the opportunity to comment on this proposal to support interbank settlement of faster payments in the United States.

Sincerely,

A handwritten signature in black ink, appearing to read 'Magnus Carlsson', is written over a horizontal line.

Magnus Carlsson  
Manager, Treasury & Payments  
Association for Financial Professionals