



December 14, 2018

*Via Electronic Submission*

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

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

Dear Ms. Misback,

The Clearing House Payments Company, LLC (**TCH**)<sup>1</sup> appreciates the opportunity to provide input in response to the request for comment issued by the Board of Governors of the Federal Reserve System (**Board**) regarding potential Federal Reserve services that may help achieve the goals of ubiquitous, nationwide access to safe and efficient faster payments. As the operator of the RTP<sup>®2</sup> network, a real time gross settlement (**RTGS**) and clearing infrastructure for payments and the first new payment “rail” for the U.S. in more than 40 years, TCH strongly supports the Faster Payment Task Force (**FPTF**) goal of a safe, efficient, equitable, and ubiquitous faster payment system for the U.S. by 2020. We recognize that this common vision would not be possible without the Federal Reserve’s constructive role as the facilitator of the FPTF. TCH thanks the Federal Reserve for this important service to the U.S payment system.

TCH is bringing to life this common vision through the RTP network. The network’s real-time payments combined with a rich messaging structure is revolutionizing how depository institutions attract and retain customers and add value to their customers’ financial lives through safer and smarter payments. We believe that it is essential for consumers and businesses to benefit from the innovation our network enables and for depository institutions to remain competitive in payment services. Accordingly, we

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<sup>1</sup> Since its founding in 1853, The Clearing House has delivered safe and reliable payments systems, facilitated bank-led payments innovation, and provided thought leadership on strategic payments issues. Today, The Clearing House is the only private-sector ACH and wire operator in the United States, clearing and settling nearly \$2 trillion in U.S. dollar payments each day, representing half of all commercial ACH and wire volume. It continues to leverage its unique capabilities to support bank-led innovation, including launching the RTP<sup>®</sup> network. As the country’s oldest banking trade association, The Clearing House also provides informed advocacy and thought leadership on critical payments-related issues facing financial institutions today. The Clearing House is owned by 24 financial institutions and supports hundreds of banks and credit unions through its core systems and related services.

<sup>2</sup> RTP<sup>®</sup> is a registered service mark of The Clearing House Payments Company L.L.C.

provide equitable access to the RTP network and are working diligently towards ubiquitous reach by 2020. Our network is available today and we welcome depository institutions of all sizes to participate as we reinvent payments together.<sup>3</sup>

Of course, the RTP network offers its services in the dynamic and competitive faster payment environment. While the RTP network is the first payment network to offer 24X7 real time clearing and settlement, the ubiquitous ACH and card networks in recent years have introduced faster payment services through same day ACH and new push payment services, respectively. These networks continue to explore ways to provide users with faster and enhanced payment services.<sup>4</sup> And consumers can currently choose from a number of faster payment services such as Zelle, Venmo, PayPal, and Square Cash that ride on top of payment networks. In addition to these existing networks and services, there is a nearly constant influx of new private sector faster payment offerings that are reported in the press.<sup>5</sup> To be successful in this space providers must be quick to market, nimble in response to changing needs, and innovative.

In the midst of this dynamic, competitive, and industry-driven faster payments environment the Board now considers the Federal Reserve's future role. Specifically, the Board seeks comment on two potential Federal Reserve services, a 24x7 real time gross settlement service (**Fed RTGS Service**) and a liquidity management tool (**Liquidity Service**). As more fully discussed below, TCH

- Believes there is an important role for the Federal Reserve to play to support faster payments in the U.S by providing the Liquidity Service, preferably as an expansion of Fedwire Funds Service operating hours;
- Does not believe there is a need for the Fed RTGS Service and, thus, does not support it; and
- Is very concerned that if the Federal Reserve determines to provide the Fed RTGS Service, it will harm rather than support the U.S. faster payments marketplace unless the service is fully interoperable and functionally aligned with the RTP network and implemented by 2020.

Notwithstanding our concerns about the RTGS Service, TCH is committed to working with the Federal Reserve to explore how best to achieve TCH and the Federal Reserve's shared goal of a ubiquitous faster payment system for the U.S.

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<sup>3</sup> TCH's other payment networks, EPN (ACH), wire (CHIPS), and Check Image, are also available to depository institutions of all sizes. Non-owner depository institutions participate today in all of these services.

<sup>4</sup> For example, in the ACH NACHA has recently announced changes to the NACHA Operating Rules to expand Same Day ACH. In particular, the rule changes create a third Same Day ACH processing window (contingent upon later NSS and Fedwire Funds closing times); increase the Same Day ACH dollar limit from \$25,000 to \$100,000 per transaction; and provide faster funds availability for certain ACH credits. See, Same Day ACH Will Be Enhanced to Meet ACH End-User Needs (September 14, 2018), available at <https://www.nacha.org/news/same-day-ach-will-be-enhanced-meet-ach-end-user-needs>. In addition, NACHA is considering the feasibility of further expanding ACH processing to weekends and holidays.

<sup>5</sup> As a single recent example, on December 6, 2018 Signature Bank announced its plans to launch a blockchain-based real-time payments platform on January 1, 2019. See, Signature Bank Wins New York Approval for 'Real-Time' Blockchain Payments by Nikhilesh De, available at <https://www.coindesk.com/signature-bank-wins-new-york-approval-for-real-time-blockchain-payments>.

**I. TCH Supports the Liquidity Service as an Expansion of Fedwire Funds Operating Hours.**

The Board has asked whether the Liquidity Service, which would provide banks a method to transfer liquidity between Federal Reserve accounts outside of standard business hours, would be beneficial to faster payment efforts in the U.S. TCH believes that such a service would be beneficial and very well suited to the Federal Reserve's role as the central bank. For the reasons set forth below, we think that expanding the operating hours of the Fedwire Funds Service is the most useful means of providing the service. We encourage the Board to seek further industry input on a 24x7 Fedwire Funds Service.

As referenced in the Board's discussion of the Liquidity Service, the RTP network uses a Federal Reserve account that is owned jointly by RTP Funding Participants and Funding Agents.<sup>6</sup> Settlement in the RTP network is effectuated through entries on an RTP ledger<sup>7</sup> and fully backed by the balance in the joint account, thereby making RTP settlement the practical equivalent of settlement in central bank money. Participants fund their RTP ledger positions and receive disbursement of excess network liquidity through Fedwire Funds transfers. This is a safe and effective means of enabling settlement and liquidity disbursement and has been successfully used for almost 20 years by CHIPS, a systemically important financial market utility.<sup>8</sup> However, because the RTP network operates 24x7 and the Fedwire Funds Service does not, there are certain periods of time, the longest being weekends and holidays, when Funding Participants and Funding Agents are unable to "top up" RTP network positions or withdraw excess liquidity from the network.

While there is a means for RTP Participants to lend each other liquidity in the network during non-Fedwire Funds operating hours, it would be very helpful if the Fedwire Funds Service were available outside of standard business hours.<sup>9</sup> Because TCH has built the RTP network to interact with the Fedwire Funds Service, if the Federal Reserve were to implement the Liquidity Service through a means other than expanding Fedwire Funds Service operating hours, the service would require technical changes to the RTP network and result in unnecessary cost and operational complexity.

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<sup>6</sup> The terms Funding Participant and Funding Agent are defined in the RTP Operating Rules, which are available at <https://www.theclearinghouse.org/payment-systems/-/media/6de51d50713841539e7b38b91fe262d1.ashx>.

<sup>7</sup> Settlement and other entries on the RTP ledger are not reflected on the books of the Federal Reserve Bank of New York and do not involve the use of the Fedwire Funds Service.

<sup>8</sup> For more information about CHIPS and its method of settlement, see CHIPS Public Disclosure of Legal, Governance, Risk Management and Operating Framework, available at <https://www.theclearinghouse.org/-/media/new/tch/documents/payment-systems/chips-public-disclosure-2018.pdf>.

<sup>9</sup> Because the Federal Reserve does not treat the RTP joint account balance as reserves eligible for interest, another benefit of expanded Fedwire Funds Service operating hours would be the ability of RTP Funding Participants and Funding Agents to better manage the use of their reserves. Specifically, expanded Fedwire Funds Service operating hours would enable "just in time" transfers from their Reserve Bank master accounts to the RTP joint account and avoid the need to potentially over-fund their RTP ledger positions in advance of weekends and holidays.

Subject to further industry consideration and in addition to expanded hours for the Fedwire Funds Service, we think expanded National Settlement Service hours may be useful to faster payments services provided via ACH or other future private sector arrangements involving settlement groups.

## II. TCH Does Not Support the Fed RTGS Service.

### A. The Fed RTGS Service is not necessary.

The Federal Reserve, through its sponsorship of the FPTF, established a vision for faster payments in the US (reflected in 36 effectiveness criteria) and set a goal for the private sector to meet that vision by 2020. The RTP network, which went live in November 2017, is able to achieve that vision by providing a ubiquitous, safe, efficient, and equitable faster payment system for the U.S. by 2020. The RTP network was one of 16 proposed solutions submitted to the FPTF and received the highest rating of “very effective” in 31 effectiveness categories and an “effective” rating in the remaining 5 categories. Hence, the network’s features and design are strongly aligned with the ideal faster payment service envisioned by the FPTF. Moreover, the RTP network meets the “longstanding public policy objectives [of the Federal Reserve] for the payment system.”<sup>10</sup>

#### 1. Accessibility

TCH designed and built the RTP network as a payment system for all depository institutions: large and small. While TCH had committed to build and had largely designed the RTP network in 2014, a year before the formation of the FPTF, we recognized the importance of engaging in an open and collaborative process to ensure that the RTP network would meet the needs and expectations of all segments of the faster payments ecosystem. For this reason, TCH was an active participant in the FPTF and submitted the RTP network for evaluation under the criteria established by the taskforce’s broad stakeholder group.

To enable equitable access to the RTP network, TCH has established and is committed to maintaining flat pricing, no volume discounts, and no minimum volume requirements for all RTP participants. TCH has also made the RTP rules, message specifications, use cases, demonstrations and other resources publicly available on its website to enable equitable understanding of the network.<sup>11</sup> Additionally, TCH has formed an Advisory Committee, comprised of non-owner depository institutions and trade groups that represent community banks and credit unions, which provides input and advice on RTP rule changes and RTP network business initiatives. TCH will continue to actively seek input and involvement from multiple faster payments stakeholders through our ongoing engagement with the corporate community and our participation in the Faster Payments Council.

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<sup>10</sup> Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payment, p.34.

<sup>11</sup> These resources are available at <https://www.theclearinghouse.org/payment-systems/rtp>. Note that suggestions for rule changes can be submitted to TCH at [RealTimePaymentRules@theclearinghouse.org](mailto:RealTimePaymentRules@theclearinghouse.org).

For these reasons, notwithstanding the suggestion of the Board, we strongly believe that the RTP network, on its own, can provide equitable access to banks and achieve near universal access by 2020. By the end of 2018 the RTP network will be able to reach almost half of the demand deposit accounts in the U.S. By the end of 2019 we expect to reach approximately two-thirds of these deposit accounts.<sup>12</sup> And TCH has a credible plan for reaching near ubiquity by the end of 2020. We emphasize that our progress to date and expected future ubiquity results from much more than implementing an infrastructure and establishing technical connections to participants and their service providers.

In contrast, we think the Board is over-simplifying the issue of ubiquity by assuming that its current network can be readily used for the Fed RTGS Service and that depository institutions will have the internal capabilities to handle real time payments. While we recognize the broad reach of the Federal Reserve's electronic connections and relationships with depository institutions, this does not easily translate into a ubiquitous faster payment system. The electronic connections must be sufficient to support the volumes, speeds, and redundancies required for the type of real-time faster payments intended to be made over the Fed RTGS Service. And just as importantly, depository institutions themselves must make changes to their internal systems that enable them to send, receive and post payments in real time.

Because ubiquity requires more than settlement infrastructure and technical connections, TCH has spent much of the past two years building an ecosystem that understands and is increasingly ready to adopt RTP capabilities. We have engaged in detailed conversations with depository institutions to develop market practices, operational and compliance guidelines, and baseline use cases and products for the RTP network. We have also educated and taken feedback from the corporate community about how RTP capabilities can be used to improve business payments. And we have established relationships and entered into arrangements with core processors, who in turn are making significant investments to enable their implementation of the RTP network into the demand deposit account systems they provide for depository institutions. TCH is also facilitating discussions with banker's banks, corporate credit unions, and technology providers so that alternative options are available to depository institutions that need assistance connecting to the RTP network and handling real time payments.

## 2. Safety

The Board has suggested that the Fed RTGS Service may increase the safety of the payment system by (i) potentially increasing the use of a real-time gross settlement system for settling interbank payment obligations, (ii) increasing resiliency as an alternative to a private sector solution, and (iii) providing stability in times of financial crisis and natural disaster.

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<sup>12</sup> We note that these projections may be affected by the Federal Reserve's potential entry to the market as some depository institutions may decide to wait and see what the Federal Reserve will offer.

TCH disagrees with the Board's reasoning and does not think the Fed RTGS Service would improve safety beyond what the RTP network already provides.

The Board has suggested that the Fed RTGS Service may cause more banks to use a real-time gross settlement service for faster payments rather than using deferred interbank settlement for faster payments. But there is no reason to believe that, in the absence of a Fed RTGS Service, banks would choose to incur settlement risk rather than using RTP's RTGS capabilities for their faster payments.

With respect to resiliency, connection to a second operator would be expensive, likely only an option for the largest depository institutions as evidenced by current practice where there is both a private sector and government operated payment system. Importantly, connection to a second operator does not guarantee that a depository institution will be able to reach all other depository institutions in a contingency event.<sup>13</sup> The focus therefore needs to be on the resiliency of each faster payment system. The RTP network was built with resiliency needs in mind. As a result, the RTP network and each RTP Participant are required to have multiple redundancies to enable uninterrupted operation and access to the network.

With respect to stability of payment systems, TCH is confident that the RTP network is as operationally reliable as any Fed RTGS Service that the Federal Reserve may offer. As the Board knows given its role as supervisor of TCH's payment services, each of TCH's payment systems have operated without incident in moments of financial crisis and natural disaster, including 9/11, the 2008 financial crisis, and multiple hurricanes.

### 3. Efficiency

While recognizing that the Fed RTGS Service "would consume societal resources and could duplicate certain costs," nevertheless, the Board suggests that the service could have a positive net effect on the faster payments market if it improves depository institution participation in a RTGS for faster payments. In other words, the costs of the Fed RTGS Service are justified if the service enables ubiquity that would not otherwise occur without the service. However, as discussed above, the RTP network is capable of enabling ubiquitous access to nationwide RTGS for faster payments. Moreover, TCH and its owner banks have made significant investments to design, build, and implement the RTP network for the U.S. market. We have absorbed these costs so that other depository institutions can participate at flat pricing that covers the costs of the network's ongoing operation and future development. Hence, we believe the inefficiencies resulting from the duplicative cost and operational complexity of designing, building, implementing, and making interoperable (if possible) a second RTGS system would outweigh the benefits of the Fed RTGS Service.<sup>14</sup>

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<sup>13</sup> Connection to a second operator won't ensure the ability to reach all other depository institutions unless (i) each operator has its own ubiquitous network, or (ii) the two operators inter-operate and both operators are available during a contingency event, an outcome which can't be assumed.

<sup>14</sup> Additionally, as discussed in Section III below, we do not expect the Fed RTGS Service to be interoperable with the RTP network. Thus, ubiquity will be needed separately in each service in order for the benefits the Board

In contrast, the RTP network creates new efficiencies for the U.S. payment system. Its real time clearing and settlement, real-time funds availability to receivers, robust messaging, and ability to support all payment types (business-to-business, business-to-consumer, consumer-to-business, and person-to-person) make the network a platform for innovation. End-user services that are developed based on the RTP network's capabilities will increase competition and improve end-user payment experiences. Additionally, the network itself is competitive and has been reviewed by the Department of Justice, which found that the network may create significant procompetitive benefits.<sup>15</sup>

- B. Because the Fed RTGS Service is not necessary, it is very unlikely to meet the Federal Reserve's criteria for expanding or offering new services.

As the Board has acknowledged, any further actions it may take with respect to the Fed RTGS Service or the Liquidity Service will be "subject to the longstanding principles and criteria on new services or major service enhancements as part of the Federal Reserve's statutory requirements."<sup>16</sup> These criteria include the requirement that any new or expanded service (i) will achieve full cost recovery over the long run; (ii) will yield a clear public benefit, and (iii) cannot be expected to be provided by other providers with reasonable effectiveness, scope, and equity.<sup>17</sup>

While TCH has no view as to whether the Fed RTGS Service would satisfy the first criteria, cost recovery over the long run, it is questionable even now whether the remaining two criteria can be met given the current private sector market, which is discussed above. Importantly, the fact that some depository institutions may want the Federal Reserve to operate a faster payment system does not support the conclusion that the private sector cannot be expected to provide faster payments with reasonable effectiveness, scope, and equity. Rather, in the absence of the Fed RTGS Service, these institutions will have available and can opt to use private sector faster payment solutions like the RTP network that offers equitable access and is safe and efficient.

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espouses, particularly the ability of individuals and businesses to pay anyone, regardless of where they bank, to come to fruition.

<sup>15</sup> The business review letter is available at <https://www.justice.gov/atr/page/file/998201/download>.

<sup>16</sup> Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payment, p.42.

<sup>17</sup> Board of Governors of the Federal Reserve System, "The Federal Reserve in the Payments System," Issued 1984; revised 1990.

**III. Unless the Fed RTGS Service is Interoperable and Fully Functionally Aligned with the RTP Network and Implemented by 2020, the Federal Reserve will Significantly Harm the U.S. Faster Payments Market**

Should the Federal Reserve determine to move forward with the Fed RTGS Service, it is crucial that the Federal Reserve answer an essential and practical question: would the Fed RTGS Service be implemented and interoperable with the RTP network by 2020? The answer to this question is at the heart of whether the Fed RTGS Service will assist in enabling ubiquitous faster payments or will fragment the market and cause unnecessary cost and delay to the implementation of faster payments in the U.S.

- A. The Federal Reserve should not assume that interoperability of two RTGS systems will be possible.

It is not clear how two real-time clearing and settlement systems, like the Fed RTGS Service and the RTP network, can interoperate (i.e., how participants in one system can exchange and settle real-time payments with participants in another system). First, such systems simultaneously clear and settle payments in real time. Second, the settlement is final and irrevocable so as to ensure good funds to receiving participants who, in turn, must make funds immediately available to receivers. Third, clearing and settlement functions cannot be separated without radically changing the fundamental nature, functionality, and legal frameworks of the systems. (Imagine, for instance, that Fedwire Funds or CHIPS became just a clearing system with settlement happening separately in another system.<sup>18</sup>) Further, we believe the separation of clearing and settlement in a real time, immediate funds availability environment would increase risk in the payment system. For these reasons, we find it very difficult to envision an approach to interoperability that would not increase operational risk and introduce legal uncertainty to users of both services.

We note that in Europe the operators of two real time clearing and settlement systems, the European Central Bank's TARGET Instant Payment Settlement and the private sector's RT1, have acknowledged that their systems will not be interoperable.

Without interoperability, both the RTP network and the Fed RTGS Service would need to be ubiquitous: all depository institutions would have to be participants in both systems. Two separate ubiquitous systems would add enormous and unjustifiable cost to the market, which is why we do not think ubiquity in two systems is likely to happen. Thus we believe the Fed RTGS Service will fragment the real-time payment market and neither system will be able to achieve economies of scale and full network effects. End-user services will suffer as service providers would be forced to either develop services that can be supported by both systems or choose between systems.

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<sup>18</sup> Of course without settlement, Fedwire Funds and CHIPS would be domestic versions of SWIFT.

B. The Fed RTGS Service would need to be fully functionally aligned with the RTP network.<sup>19</sup>

Even if the Fed RTGS Service and RTP network could interoperate with respect to the clearing and settlement of payments, to ensure that the full value of real-time payments are available to participants on both networks, the systems would need to support the same non-payment messages (i.e., be fully functionally aligned with the RTP network).

For example, when payments are sent through the RTP network, there are multiple acknowledgement messages sent between participants and the network that happen within milliseconds of each other. One of these acknowledgement messages indicates whether the receiving participant has accepted, rejected, or pended a payment. This message is passed from the receiving participant to the network to the sending participant (again, in milliseconds) and the sending participant must in turn immediately share the payment's status with the sender. Providing this real-time visibility to senders is one of the many features of the RTP network that brings significant value beyond basic clearing and settlement.

As another example, the RTP network enables end-users to send a request for payment message through its depository institution to a customer at another depository institution.<sup>20</sup> These messages can carry both structured and unstructured remittance information, are sent through the network in milliseconds, and must be displayed by the receiving participant through its electronic channels to the receiver. This and other end-user messages are the building blocks for new depository institution services.

In all, there are 8 different non-payment messages, each with accompanying administrative messages, that make the RTP network a payment system for the digital age. The clearing, ingestion, and market practices around these messages go far beyond the requirements of legacy payment systems. Without this messaging functionality, the Fed RTGS Service would be a "base model" version of real-time payments that does not enable the same level of innovation as the RTP network, resulting in a lower tier of service for customers of the depository institutions that use the service and significantly diminishing the value of interoperability (assuming interoperability is possible) to participants in both systems. Additionally, the "base model" approach would harm the payment system more broadly by creating cost and operational complexity.

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<sup>19</sup> In addition to the messaging capabilities discussed in this section, the RTP network has important risk management frameworks. For example, the RTP network requires fraud reporting and is developing centralized fraud monitoring. The RTP network also requires that certain non-bank payment service providers meet specified compliance criteria, which include AML, sanctions, and consumer protection requirements. TCH can also establish origination controls on participants. The Federal Reserve would need to consider how it would manage similar risks in the RTGS service.

<sup>20</sup> Note that the RTP Operating Rules require sending participants to (i) perform initial and on-going due diligence on any customers who are permitted to send request for payment messages and (ii) warrant that each request for payment message is made for a legitimate purpose and is not fraudulent, abusive, or unlawful. See, RTP Operating Rule VII.B and the Requirements for Request for Payment Customers schedule.

- C. The Federal Reserve must be able to provide an interoperable and fully functionally aligned RTGS by 2020.

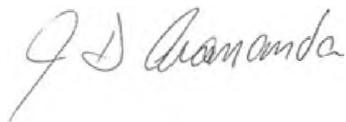
The Board states in several places that it is taking a long term view of the Fed RTGS Service's ability to assist the faster payments market and that it expects implementing the service "could take many years to achieve full participation across the banking system."<sup>21</sup> TCH believes that time is of the essence. And we think other payment system stakeholders share this view. Momentum is building now in the market and competition in the faster payments space is robust. We are concerned that the Federal Reserve's long-term view and iterative public comment process are out of step with the practical realities of payments modernization and the needs of depository institutions to compete now in the faster payments market.

The FPTF set a clear goal for the U.S. to implement a ubiquitous faster payment system by 2020. As discussed above, this will require not only that the Federal Reserve implement a RTGS by 2020 but also that it implement robust messaging capabilities by 2020. We question whether this can be done. If the Federal Reserve's involvement in the real-time payments market delays implementation of a ubiquitous faster payment system beyond the 2020 goal, the Federal Reserve will harm rather than help the payment system.

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We thank the Board for its consideration of our comments and reiterate our commitment to working with the Federal Reserve to explore how best to achieve TCH and the Federal Reserve's shared goal of a ubiquitous faster payment system for the U.S.

Very Truly Yours,



James D. Aramanda  
President and Chief Executive Officer  
The Clearing House Payments Company

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<sup>21</sup> Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payment, p.37.