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MEMBER FDIC

December 14, 2018

Ms. Ann Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Regs.comments@federalreserve.gov

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

Dear Ms. Misback:

Hawthorn Bank appreciates the opportunity to provide comments regarding the Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments – Docket OP-1625.

Hawthorn Bank supports the position that the Federal Reserve should proceed expeditiously to establish a Real Time Gross Settlement System (RTGS) to operate on a 24x7x365 basis. Hawthorn Bank further supports the position that the RTGS system be interoperable with other payment systems.

Hawthorn Bank supports the position that the Federal Reserve System should provide Liquidity Management Tools (LMTs) that would enable transfers between Federal Reserve accounts on a 24x7x365 basis.

I preface my comments by acknowledging that many banks support the efforts by The Clearing House (TCH) to establish a real-time payments system and some of these banks have expressed a concern that a dual effort by the Federal Reserve System could unduly delay implementation of the TCH system. The maximum value of any payments network is obtained by widespread adoption leading to ubiquitous use. Some participants in the TCH effort believe that if the Federal Reserve moves forward that potential users will delay adoption until the Federal Reserve implements its system, or alternatively, neither system will obtain ubiquitous use until the two systems attain interoperability so that payments initiated on one system can be completed on the other.

To resolve this concern, I urge the Federal Reserve make and announce its decision post haste to develop a RTGS system. Further, the Federal Reserve should designate a highly capable and accountable project manager and provide all necessary financial and team resources to implement an RTGS system. The goal should be to have an operable system within the next two years. Finally, the Federal Reserve RTGS system should be interoperable with other systems.

Why RTGS?

The United States requires RTGS systems in order to be competitive with other countries that have or are moving forward with RTGS systems. The RTGS system reduces counter party risks compared to other non-cash payment systems (checks, debit, credit) because payments are settled directly rather than netted one or more times a day. Also, because the RTGS system reduces the window of time that sensitive information is exposed to cyber threats (checks, debit, credit and wire) potential fraud opportunities are reduced. A robust and ubiquitous RTGS system will also lower unit transaction costs for business and consumers. Consumers primarily value convenience and merchants primarily value the lower unit costs and immediate access to funds. RTGS will also appeal to users who execute large transactions. Finally RTGS could significantly lower costs for international remittances. And, while the speed and efficiencies of legacy payment systems have increased dramatically, RTGS presents a paradigm shift where technology establishes a completely new payment channel as compared to technology being applied to improve legacy payment channels. RTGS is truly a next generation payments system.

Presently, multiple non-cash payment systems co-exist and have interoperability between the Federal Reserve and the TCH systems. These systems will continue even as RTGS is introduced and gains market share. And, like the legacy systems, a Federal Reserve RTGS system can co-exist with a private option. The Federal Reserve and TCH systems should be interoperable so that our industry and customers gain the benefits of competitive selection and competitive improvement as well as systems redundancy that reduce risks for service disruptions. The additional capacity of dual channels will also contribute to the stability of the payments network in the event there are volatile increases in transaction volumes.

Why the Federal Reserve?

The Federal Reserve System performs five central functions. The Federal Reserve: 1) conducts the nation's monetary policy; 2) promotes the stability of the financial system; 3) promotes safety and soundness of individual financial institutions; 4) fosters payment and settlement system safety and efficiency; and 5) promotes consumer protection and community development. Setting up and maintaining an RTGS system is specifically within the fourth function. The operation of a RTGS system facilitates and enhances the execution of all five of the Federal Reserve's central functions. Assuming the TCH effort continues, the Federal Reserve's participation to implement a RTGS system creates competition on price, service and innovation. The redundancies of a Federal Reserve System RTGS and a TCH RTGS plus the legacy non-cash payment systems protect against system failures and promote the national and economic security of the United States. Because the Federal Reserve already has connections with more than 11,000 banks and credit unions, the Federal Reserve's participation should decrease the time to reach end-user ubiquity to reap the full benefits of the new payment system networks.

The United States has a long history of choice in banking via our unique dual banking system that allows for both state and nationally chartered banks. Choice has contributed to assuring our banking system is diversified and stable yet also innovative. The founding of the United States and our Constitution reflects a fundamental desire for de-centralized power. We are a government and a nation of checks and balances intended to ensure that power is not concentrated in the hands of a few. And, even the structure of Federal Reserve System with twelve Federal Reserve Banks and the internal structures for the Federal Reserve Board and Federal Open Market Committee demonstrate a design that promotes diverse inputs and perspectives and a careful balancing of interests. Banks and their directors and

officers operate within a system of checks and balances, both in corporate governance and as a regulated industry, where counterbalancing influences have served our industry well. Our communities and our national economic security interests will be best served by the Federal Reserve System's direct operation of a RTGS system in tandem and in competition with the TCH.

Liquidity Management Tool (LMT)

LMTs will facilitate payments under an RTGS system as well as under our legacy payment systems. LMTs lower counter party risks across all payment systems and the Federal Reserve System is in a unique position to serve this function. With the Federal Reserve's involvement, the costs for LMTs can be spread in manner that is equitable to banks of all sizes as well resulting in pricing to reflect specific and systemic risks presented by participants. LMTs can also provide options for financial institutions participating in the RTGS system. With LMTs, some banks could set operational hours while allowing settlements to occur on a 24x7x365 basis by drawing on one or more of the liquidity tools made available, including tools that work automatically. Other banks will find that setting internal operations to a 24x7x365 basis as more advantageous even after accounting for costs and will see reduced reliance on LMTs.

The Payments Systems are Core Banking Functions

The payments access that banks provide for our individual customers, businesses and merchants is a core banking function. Many "value added" and profitable services can be linked to payments services. Consumers, merchants and businesses in general all benefit from competition in the banking sector to provide payments and related services. A Real Time Gross Settlement System presents a paradigm shift compared to legacy payment systems and this payment channel must be available for all banks.

Banks should remain gatekeepers to the payment systems because this central role contributes to the strength of the banking system which is foundational to our economy. The regulatory regime that banks operate under serves to strengthen our payment systems and to assure that they remain the public highways of commerce. Banks must also be innovators for value added payments services to avoid seeing our payment channel systems reduced to the status of a commodity service. The importance of the Federal Reserve System for RTGS is that a Federal Reserve System option assures equitable access for all banks and assures that banks preserve payments access as a core banking function.

Many bankers might assume that banks will always be integral to the payments systems. This status is not a given because technology may move faster than the government, a regulatory agency, or industry anticipates. Banks risk the loss of new generations of customers if non-bank payment facilitators gain a significant presence in banking services. Loss of gatekeeper status in payment systems would be detrimental to the safety and soundness of banks. Without a robust dual banking system and a mix of global, regional and community banks, many communities will be left behind as economic power and benefits become concentrated.

I respectfully ask that the Federal Reserve System move forward as expeditiously as possible to create and implement a RTGS system, provide for its interoperability with other payment systems and also proceed to implement liquidity management tools to reduce counter party risks, operating costs and to provide operational choices for banks regarding the RTGS system.

Sincerely,

A handwritten signature in black ink, appearing to read "D. J. Turner", written in a cursive style.

David Turner
Chairman and CEO