



**R.A. Steen**

CEO

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December 7, 2018

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

Re: Faster Payments Settlement Assessment

Dear Ms. Misback:

The enclosed response is offered for consideration regarding the Real Time Gross Settlement (RTGS) account..

Bridge Community Bank is a small Iowa community bank. Our bank is owned by an Employee Stock Ownership Plan. Our original bank charter goes back to 1903, I have been with the bank for a little over 35 years. Prior to that I was an examiner with the Federal Reserve Bank of Chicago.

I served on the Faster Payment Task Force, the Steering Committee as an elected representative of the small financial institution segment and most recently on the Directories Work Group. I was one of the Iowa Bankers Association Payments Advisory Council members that signed on to the response to the 2013 Consultation Paper. This same group just submitted a response to this process of which I again signed. I am now offering the Bridge Community Bank response to what we believe is a critical juncture in the US Payment System and as importantly, the role of the Federal Reserve as the only operator that can assure interoperability.

I am grateful for the Federal Reserve's leadership facilitating the extraordinary collaboration of vested and interested stakeholders in the quest to advance Faster Payments for the U.S. It is now time for the Federal Reserve to actually make it a reality.

Respectfully,

A handwritten signature in black ink, appearing to read "R.A. Steen", written in a cursive style.

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## Questions

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

Yes. The US banking industry continues to be dependent on the Federal Reserve to provide the infrastructure to move money between financial institutions and ultimately to the end users, whether consumer or business. Speed, security, interoperability and trust are essential components so moving payments to real time including settlement is a the next logical step in improving the US payment system. This fundamental change will mitigate cross-party risk in the settlement process which is central to the ultimate objective of a good funds payment with finality.

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

Yes. The United States economy does not sleep. Real time transactions and settlement is key to limiting systemic risk to the financial sector along with the value of certainty and speed. Completing settlement of a payment in real time and in central bank dollars is fundamental to achieve this goal. The 24/7/365 access to money has been a basic tenant of the debit card rail for several decades. Real time visibility to the card holder evolved over those years but the transaction based on good funds would happen 24/7. RTGS extends that basic concept and will allow the industry to tap into this new service for a materially more efficient system of payments.

**If the Reserve Banks develop a 24x7x365 RTGS settlement service, 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?**

There will be demand and additional use cases will evolve. The obvious first line of demand will be person to person but as the ability to leverage messaging advances, business to business payments will migrate to this payment system. All forms of payments such as business to consumer, consumer to business, and just in time payments will follow and adopt as the new normal.

**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?**

The obvious path to 24/7 operation is to extend the banking day. For many smaller financial institutions, the 3rd party core provider will become ever more important. Unattended and automatically scheduled processes will be developed. Banks will develop tools to better

enable after hours real time payments. This is an extension of the industry ongoing argument about additional settlement windows for ACH. Volume of same day ACH has proven that the business day can be extended East to West and the industry finally took this advancement generally in stride and continues to look for additional settlement windows. All the fuss over all the years about risks of faster, and the perceived complexity of simply using today's date as the effective has been generally put to rest. The same evolution to real time payments will come and go to the betterment of end user experience and enhancement of the US payments system.

This will happen when it is scheduled to happen but not without its critics whose objective is to live yesterday again. 2020 is still achievable for those that want and need to move forward.

**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.**

Hopefully we are on the back end of the timeline. The Federal Reserve declared the goal of improving the US payment system in 2012. Then consulted beginning in 2013. Then strategized in 2015. Then collaborated for 3 plus years. After all that we have not met the goal of an interoperable real time payment network but have watched closed loop systems developing. For any of this to matter, the Federal Reserve needs to stand up a real time network that is assessable to all financial institutions that are now qualified to have a Fed account. With that interoperable network access, adoption will happen.

So, it is time to set out both the task and the schedule:

June 17, 2019	Liquidity Tool(s) available (not to be confused with success)
September 23, 2019	RTGS account opening available to beta group
November 4, 2019	RTGS transaction/settlement testing
January 6, 2020	Federal Reserve offers operating services to RTGS participants
July 6, 2020	RTGS in full operation and success declared

**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?**

Even today, this moment, money can be moved using a mobile device that through a memo post process will make funds available to the recipient in real time, after hours or otherwise. This has been a major step forward but that process is either later settled against prefunded sources or in a deferred net settlement method. That translates into cross party risk at multiple levels. Ultimately there will be no "end of day". That will require a mindset change beyond operational advances. In the meantime, messaging and information must either move as part of the transfer of funds or in a separate ancillary messaging system also exactly on time. There will be system changes required and most smaller banks will as today, be largely dependent on their core providers to develop this capability. .

**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?**

It may not be essential that the RTGS account be interest bearing but that would result in unnecessary and ongoing account management simply to limit the cost of idle funds. If both the master account and the respective RTGS account were on equal earnings status, then account management would be entirely dedicated to liquidity and certainty of funding real time transactions. If the Fed were to offer the liquidity tools (services) that are being discussed, that will only add to the good funds certainty that the system will expect and demand.

**f. Regarding auxiliary services or other service options, i.e. 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?**

As set out in the 2015 Strategy paper, a directory of end users is essential. Such a directory, preferably central, to facilitate the exchange of end user aliases on behalf of the various proxy or industry subdirectories is a critical component of moving money in real time. The technology to improve the alias will also advance to options including biometrics and other personal attributes and only central oversight can set those evolving standards for ubiquity. This would be a role for the Federal Reserve as the central bank whose charge is to ensure that the US payment system is assessable, reliable, and secure.

**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 services are a team sport. No one entity can ever be solely responsible. The industry can get better at a collective effort to filter out the bad players but again, consistent standards, requirements and guidance from the central bank will drive adoption to a more secure payment system.

**iii. How important are these auxiliary services for adoption of faster payment settlement services by the financial services industry? How important are other service options such as transaction limits for risk management and offsetting mechanisms to conserve liquidity? Are there other auxiliary services or service options that are needed for the settlement service to be adopted?**

It would make sense to cap transaction amounts in the early phases of this evolution to real time payments. But that approach should not be a restriction to qualified participants that mutually consent to settle payments on behalf of end users that might exceed those thresholds. That is not a day one required option but it is essential that we not bake in road blocks in building a fully functional payment system. As an early adopter of the FRB's opt-in same day ACH service in 2013, our small bank funded a loan participation purchase with a same day ACH debit of \$1,000,000 initiated by another community bank that had also opted in to the service. We are now limited to \$25,000 and debits were phased in. While we are moving that cap up, it has limited the practical use of what is currently the most cost effective and efficient payment system simply to protect wire service revenue. We can not run the RTGS account with old habits or to protect existing payment silos.

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

The RTGS concept will have little to no value to the industry without interoperability. We are currently witnessing the closed loop option owned and operated by the largest financial institutions. While very early in its development, it highlights the critical need for a direct operating role for the Federal Reserve in ensure that interoperability for the industry..

**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?**

This question assumes we can now imagine all the possible use cases. We can not. Neither can we set limits based on our lack of forward vision. Interbank settlement is ultimately a function of settling end user payments. End users will quickly demonstrate ways that we can leverage the 24/7/365 payment and the related benefits.

**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?**

This advance in real time payments is only worth the effort if it is a good funds model with finality. It will not function otherwise. So the certainty of funds and liquidity management is paramount. Funds management is the business we are in so with the exception of faster, this is not new. The expectation is that the Federal Reserve brings the resources needed but the participating financial institutions are ultimately responsible for their own liquidity needs. The Fed's ability to develop liquidity tools will make this easier and more reliable. Accounting processes and payment routing will be largely dependent on the Federal Reserve as an operator and to allow system interoperability.

**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?**

The industry has developed multiple liquidity tools for their own customers. Those services can come in various colors - immediate transfers between deposit accounts, loan advances, overdraft protection and more. So sweeps between a master account to the RTGS account, advances against collateralized loan arrangements, and even, although last resort, momentary overdraft limits set as they are today either within self assessment guidelines or basic deminimus caps are all practical. There may be second tier levels the private sector (proxy FI's) can provide but the front line settlement will be dependent on the Fed's operating role.

**5. If the Reserve Banks develop a liquidity management tool, 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**

Yes, all of the above and generally in that order with the added concept of advances against prearranged collateralized lending described above..

**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?**

If the liquidity tool can be structured, there can be no practical reason to take it off line at any time.

**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 liquidity tool as envisioned here should be implemented as step one and available in the current payment services the Federal Reserve provides today. Not only is it easily achievable, but a practical test for what is to come.

**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?**

The liquidity tool (service) should be developed now and not dependent on the RTGS timeline. While not mutually exclusive, the liquidity tools should not be held out as success and in any way hold back development of the RTGS account structure.

**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?**

The liquidity tool as set out in the paper is just that - a tool. It is an essential tool to enhance the basic premise of good funds 24/7. However, the tool is not settlement. The RTGS account structure is most likely the only way to achieve industry interoperability which will then drive ubiquity or at least the chance for ubiquity.

**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?**

Serving the end user should never get lost as the ultimate reason to improve the US payment system. That especially includes the under banked and unbanked populations, which frankly, our industry has largely failed. The banking industry has allowed regulatory paranoia to hold us back from serving this important segment. This duty will only expand as our communities become ever more diversified. Borders will continue to be blurred, not walled. Payments need to follow. So this effort can not be limited to a narrow vision of within the United States. Still, a primary and ultimate beneficiary will be the US economy.

**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 should continue to advance foreign payment services. Small financial institutions may have limited or even one-off needs, but they are critical needs at the time and should be assessable, practical and cost effective.

**By order of the Board of Governors of the Federal Reserve System, September 28, 2018.**

Ann Misback (signed)

Ann Misback, *Secretary of the Board.*