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Via electronic submission
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Federal Reserve System
Ann Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.A.
Washington, D.C. 20551

Federal Reserve System 12 CFR Chapter II
Docket No. OP-1625
Potential Federal Reserve Action to Support Interbank Settlement of Faster Payments

Dear Ms. Misback:

PSCU appreciates the opportunity to submit comments to the Board of Governors of the Federal Reserve System (the "Fed") in response to the request for comments regarding potential future actions to support interbank settlement of faster payments.

PSCU is the nation's premier payments Credit Union Servicing Organization (CUSO), and supports the success of over 900 Owner credit unions and their 43 million members with more than 2 billion unique transactions annually. PSCU understands the importance of this work and has been engaged in participating in the Faster Payments Task Force, the Secure Payments Task Force, and the Directory Workgroup, and a founding member of the U.S. Faster Payments Council. We believe it is important to ensure that the perspective of our Owner credit unions is represented throughout the evolution stages of this work.

We commend the Fed for taking the opportunity to request commentary to evaluate what if any, role would be appropriate to take on to serve the market needs. The Federal Reserve's role in payments and services can be complemented with solutions in faster payments, settlement, and ancillary services creating a competitive and fair environment for all.

The following is a summary of our comments in support of the detail requested on subsequent pages:

- PSCU supports the Fed in developing a real-time payments network that provides solution options
- We believe interoperability is important among private sector real-time rails to enable the system envisioned for the future
- The opportunity for all to support receiving transactions will be paramount to the success desired
- The desire for the Fed to develop a liquidity management tool is important to the success of supporting a solution to keep payments flowing through the system and adoption

- Lastly, the decision to proceed with such a network is imperative to be communicated quickly as delays will cause the market momentum to slow

We are supportive of the need for diverse stakeholders to engage in further conversations and we would look forward to being an active participant.

In response to each of the questions posed by the Federal Reserve for this specific commentary, PSCU would like to submit the following related to each question posed.

Questions

1. Is RTGS [Real Time Gross Settlement] the appropriate strategic foundation for interbank settlement of faster payments? Why or why not?

Yes, the need for the Federal Reserve to provide settlement services needs to keep pace and change to support the adoption of real-time payments. RTGS will likely create more efficiencies in the system while decreasing risk and increasing confidence in new payment rails. As we prepare for the adoption of real-time payments, all parts of the ecosystem must be able to change to keep pace with needs.

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

Yes, the Federal Reserve should provide this service to create equity, fairness, and ubiquity. The analyst's predictions for faster or real-time payments projects a significant demand for these services. We will see shifts from cash and check to real-time payments, the new demands of real-time payments with the gig economy, additional P2P solutions, and an extension of services into B2B, B2C, and faster government payments. The expectations are that real-time payments will take hold in the next ten years with volume ramping quickly to produce sufficient volume to plan and make these changes. We would point to the Federal Reserve January 2015 report "Strategies for Improving the U.S. Payment System", which noted four use cases that could benefit most from increased speed in payment processing. The study brought forth person-to-person (P2P), person-to-business (ad hoc C2B), business-to-person (ad hoc (B2C), and business-to-business (B2B). The total annual volume of the four categories amounts to 28.9 billion transactions clearly identifying there is a need for a solution.

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?

There are substantial changes including technical and operational aspects to support real-time transactions, settlement including liquidity management, member support questions, and problem resolution that will support use cases we haven't yet considered. It is difficult to provide a cost or timeframe at this time without more specifics.

This new environment cannot afford for transactions to be declined due to low levels of liquidity in the settlement account where expectations for adoption require immediacy and the ability to keep transactions flowing to attain adoption. In this new environment, services to manage and support liquidity may be referred to partner organizations who have the staffing and experience to ensure members are served – 24x7x365. Therefore flexibility and solution design are important considerations

in how the tool is built and who may be using it on behalf of credit unions. Credit unions may seek solution providers such as PSCU to perform these services on their behalf.

Credit unions and their agents need to be able to have the ability and tools to access settlement solutions required to support real-time payments. While we are not commenting on the type of account and how it will be managed, whether it is a master of sub-account, credit unions will need the ability to move funds between accounts based on balance thresholds. Shortfall liquidity could be resolved through credit lines to cover overdrafts should they occur.

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.

The ideal timeline is for the Federal Reserve to create this solution as soon as possible to aid the market in moving forward with strategies. Time will be needed by participants to plan and integrate process changes. The solution should provide flexible options or a roadmap for adoption moving toward full deployment.

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?

This change may impact organizational areas such as accounting, operations, legal agreements, analytics, and support services. However, the future of payments requires that we begin the development and movement toward this change sooner rather than later.

Payments for RTGS solutions requires that liquid funds be made available resulting in funds that are no longer available for investment or loans. This is a significant impact to credit unions. New processes will be required to analyze funding needs while also incorporating growth plans as these payments take hold.

The development dollars associated with these changes are unknown at this time and will require time to evaluate and plan accordingly at the risk of trade-offs including innovation. In regards to accounting or operational solutions that could be implemented, an evaluation would need to be done to identify solutions. In regards to the solution design, flexibility would be required in the design to support the masses.

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?

Further evaluation required.

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?

The Federal Reserve is in a position to operate a directory service on behalf of all parties providing a level playing field and service parity where the benefit is derived by all and competition exists. The solution design should include interoperability. The Federal Reserve is in the unique position of being able to afford a solution that reaches the broadest base and would be a trusted source for the information that would be provided. The information contained in the directory will require a high level of security.

How should such a database be provided to best facilitate nationwide adoption? Who should provide this service?

The database or directory should be developed and operated by the Federal Reserve or its designated authority. The database design should be selected based on the optimal design from the Federal Reserve Directory Workgroup including a review to ensure the best recommendations are brought forth pending any new information learned. It should accommodate growth, performance requirements, and ensure the best security to maintain the trust and security of the payments system.

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?

PSCU has implemented various effective fraud solutions to protect against fraud. These are market leading solutions that constantly work to reduce fraud for our Owners. Fraud, however, will always be of concern and importance to large and small credit unions. We are open to understanding and implementing emerging solutions that can continue to safeguard the system, specifically at the network level – a level no individual organization can see. The goal would be to build flexibility into the system such that no one banking organization would benefit from information from the system by itself, but rather for information to be shared in a way that fraud could be detected across the network and be stopped. For real-time payments, any solution that can stop fraud is important to consumer confidence. These new rails will continue to evolve with new product solutions, and it will be important to have fraud solutions in place whether individually as an organization or holistically to counter any compromises.

Provider options should be reviewed based on current market needs, including services that include artificial intelligence/machine learning solutions that can learn and constantly improve based on immediate information received.

iii. How important are these auxiliary services for adoption of faster payment settlement services by the financial services industry?

These components should be considered a part of the solution design even if they are to be staggered into the solution design deployment. Directory services, however, is core to the offering.

How important are other service options such as transaction limits for risk management and offsetting mechanisms to conserve liquidity?

Risk management should be reviewed at the network level to ensure controls are in place that can aid in managing risk and losses for each entity. There are various ways in which these types of features could be built and used including at the member level. Building flexible capabilities will be a requirement for the various solutions offered.

Are there other auxiliary services or service options that are needed for the settlement service to be adopted?

Not aware of any at this time.

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

Interoperability is important to achieve the goals of getting to ubiquity. This is likely a long tail that will take time to evolve.

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?

More discussion would be needed. We are not aware of any other feasible services at this time.

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?

If a liquidity management tool becomes a product or service extension, a team should be established to aid in building the requirements to support all stakeholders with likely unique needs.

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?

A tool or solution will be needed, and if the Federal Reserve doesn't build it, others will need to create solutions to effectively manage accounts and balances including on behalf of others.

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

In general, we are supportive of (iv.) a combination of the above. The tool flexibility will provide the support for multiple solution options, providing support for the potential of a broad range of product capabilities. In essence, a tool could be provided, or a higher priority would be to provide an API that could be used for organizations to parse out data to support the entities behind them, providing data to only those applicable organizations that are involved with specific transactions. APIs would provide a solution to integrate the required data into existing product solutions supported.

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?

A liquidity management tool should be available 24x7x365 or very close providing an alerts feature that provides each organization the ability to set threshold parameters. An additional feature is a standing order to transfer a pre-defined amount as set by an organization or credit line access.

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?

More exploration would be needed in this area.

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?

Both tools should be developed in tandem to optimize the design and integration capabilities. The opportunity to manage balances along with settlement positions is critical to effectively managing the operation.

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, developing these tools helps the industry move toward achieving the goals. It creates an entry path for all through support of foundational tools to effectively achieve the objective. The Federal Reserve is positioned as a trusted partner and understands the payments modernization needs of today. The Federal Reserve is best positioned to create and oversee the governance required (such as settlement, creation and management of rules, etc.), that result in maintaining a safe and efficient solution for all.

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 is well positioned to be a source of industry collaboration including not just for technical and operational solutions, but also for the consumer education. Current operational dispute processes and likely regulations will continue to change and evolve with the Federal Reserve continuing to help spearhead the industry collaboration to bring success.

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 has acted in the past in bringing together stakeholders to work through complex topics related to faster or real-time payments. This work should continue to engage stakeholders as we continue to work through industry issues and challenges as we adopt real-time payments in the U.S.

Respectfully,

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PSCU

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