

December 14, 2018

Ms. Ann E. Misback
Secretary
Board of Governors
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

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

Dear Ms. Misback:

The following comments are respectfully submitted on behalf of Eastern Bank, an \$11.3 billion state-chartered mutual bank based in Boston, Massachusetts with branches located through eastern Massachusetts and southern New Hampshire, in response to the Request for Comment on Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments.

We strongly endorse the Board of Governors' goals of ubiquitous, safe, and efficient faster payments in the United States by facilitating real-time interbank settlements. Significant improvements in technology have appropriately raised consumer and business expectations relative to the speed for which transactions for goods and services should settle. Instantaneous and transparent payments and settlements will advance significant public policy goals, including improving the resiliency of the United States banking industry and providing significant consumer benefit. To achieve these goals, it is imperative and in the best interest of the public that the Federal Reserve act as an operator of the proposed Real Time Gross Settlement System and implement the complementary Liquidity Management Tool.

Faster payments solutions are needed with 24x7x365 availability in response to increasing global banking competition and customers' expectations. To meet these challenges, it is necessary for financial institutions to have faster payment resources in the market at the settlement, clearing, and end-user service levels of the payment process. Faster payments require robust, safe, and highly reliable transaction management capabilities. Moreover, additional capabilities in liquidity management, interoperability, and consumer fraud protection are essential. A faster payment infrastructure that is positioned to meet the technological advances of the marketplace will enable the banking and non-banking industries to continue to innovate and provide greater services to their customers. We anticipate increasing demand growth for faster payments in the future.

Real Time Gross Settlement System (RTGS)

The offering of an RTGS by the Federal Reserve would introduce competitive forces into the faster payment marketplace which help shape market synergies toward stability and reliability. These forces are choice, confidence, redundancy, governance and accountability and would

positively influence the development options for financial institutions of all sizes. The Federal Reserve's operation of Fedwire RTGS, the large-value, time critical funds transfer system, contributes valuable experience. In addition, the Federal Reserve would be viewed as a trusted partner given its governance and oversight of Fedwire.

A Federal Reserve RTGS introduces a platform for financial institutions at the lowest level of the payment process upon which they can build to meet increasing customer expectations of faster payment settlement, better service, and seamless execution. With the potential for significant market changes from competitors, consumer needs, and technological advances, sound payment partnership options are essential. Operation of an RTGS which targets the three levels of the payment architecture and is scalable to transaction size offers a foundation for a holistic payments market.

The Federal Reserve can strengthen the faster payments market in several areas such as real-time information access, routing performance, controls enforcement, and incident response. As an operator of an RTGS, the Federal Reserve can leverage access to real-time information on user data usage, performance, payment types, and payment trends to improve service and better understand the faster payments economy. The Federal Reserve can help assure equitable routing performance of transaction payments through its connectivity to 11,000 banks and credit unions. Controls enforcement can be enhanced through direct access to the RTGS providing visibility into control management real-time. Incident response and resiliency effectiveness can also be increased as the Federal Reserve can promptly activate the governing resources needed to address situations.

These opportunities help ensure a sound banking infrastructure which is necessary for the effective functioning of the market for the public and the economy. It is therefore important that all viable competitors participate to apply constructive pressures for the benefit of the public. The Federal Reserve's ability to strengthen the market through offering an RTGS raises the level of competition in the market. Restraining the Federal Reserve from operating an RTGS could delay the availability of protections and services for the public and for financial institutions.

Liquidity Management Tool (LMT)

A LMT is needed independently of an RTGS operated by the Federal Reserve. The LMT provides greater liquidity management capabilities to financial institutions helping them scale to market forces around increasing faster payment solutions. Faster payment systems increase liquidity management challenges for financial institutions. A LMT will help ensure that sufficient liquidity for payment processing is available during peak times and after business hours when processing may be interrupted due to processing constraints with counterparties. A LMT can also enable greater resiliency in the event of systemic liquidity shocks. Liquidity management should be considered from the financial institutions' view, but also with the Federal Reserve acting as agent for supporting a liquidity crisis. The Federal Reserve has the trust and crisis response experience needed to allow access in providing liquidity resiliency.

A LMT is a valuable tool for addressing liquidity issues during the acceleration of payment speed. It is needed during peak hours to help minimize accounting errors with liquidity management, during non-operational hours to address funds availability mis-matches between

counterparties and during crisis. A LMT should be available 24x7x365 to support increasing out-of-time zone or international settlement demand on banks.

With respect to the relationship between both the RTGS and a LMT, the solutions should be developed at the same time, but not inter-dependently. The technology development process for each would benefit the other while a LMT would be very helpful independently of an RTGS.

Interoperability

To enable effective RTGS and LMT, interoperability between payment systems is essential for meeting customer expectations as payments will likely settle on competing systems such as the Reserve Bank's RTGS, ACH or The Clearing House. In addition, with increasing global competition, financial institutions need to increasingly offer competitive products and service offerings. Financial institutions' transparency in connectivity between payment solutions supports this development. The Federal Reserve currently has access to an estimated 11,000 banks and credit unions. Leveraging this infrastructure and other providers assures customers the large connectivity opportunities while reducing redevelopment costs. An RTGS which offers greater inter-operability provides a platform from which financial institutions can increasingly develop competitive products and services for the public.

Fraud Prevention Tools

Any faster settlement solution needs to have accompanying real time fraud prevention tools. A substantial benefit of the Federal Reserve acting as an operator of the RTGS will be the vantage it will gain. Identifying and sharing suspicious activity in real time will substantially aid determinations by financial institutions to approve or block transactions. Faster payments will likely incent fraudulent activity. Without appropriate fraud prevention tools, reversing real-time instant payments may prove especially difficult. The faster processing may also benefit money launderers. If the speed of payment settlement enables the fast removal of funds from traceable systems or movement to multiple systems to obscure the trail more quickly, money launderers may develop strategies to take advantage of this speed before authorities have time to act. Because of these risks, fraud prevention tools will be needed 24x7x365 as actors seek to exploit vulnerabilities during lower coverage periods such as after-hours or on weekends. Financial institutions need to protect against the growing threat landscape and the fraud prevention solutions would be best provided through cooperation between private and public sectors to apply all available resources toward the growing risks.

We appreciate the opportunity to respond to the Federal Reserve's Request for Comment and hope our opinions will aid in serving the best interest of the public and the banking industry.

Very truly yours,



Robert F. Rivers
Chair & CEO