

December 14, 2018



Ann Misback  
Secretary  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue NW  
Washington, DC 20551  
[regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)

**Re: Docket No. OP-1625**

Dear Ms. Misback:

The New England Automated Clearing House Association (NEACH) welcomes and appreciates the opportunity to respond to the **Potential Federal Reserve Actions To Support Interbank Settlement of Faster Payments, Request for Comments**, provided by the Federal Reserve Board of Governors.

NEACH represents more than 420 Financial Institutions with headquarters and branches located throughout Maine, Vermont, New Hampshire, Massachusetts, Rhode Island, Connecticut and New York. Over 80% of our members have an asset size below \$1 billion, and have strong ties to the communities they serve. Our response was prepared with input from NEACH Members' Standing Rules Committee, representing 29 institutions, town hall feedback, provided during a recent Member Meeting attended by 70 individuals representing 37 institutions, as well as input from NEACH staff, payment rules professionals, holding various certifications, including: Accredited ACH Professional, National Check Professional, Accredited Payments Risk Professional, and Certified Anti-Money Laundering Specialist.

**BACKGROUND**

Since the Federal Reserve Bank published the *Strategies for Improving the US Payment System (SIPS)*, (Fedpaymentsimprovement.org, 2018)<sup>i</sup> in 2013, there has been increased innovation in the payments industry. This activity includes the formation of the Federal Reserves Faster Payments and Secure Payments Task Forces, private industry and networks like NACHA, developing new rules and solutions and exploring faster and more secure payments. However, for a significant cross section of the financial service community, these solutions remain out of reach due to cost or limited auxiliary services.

In addition to the industry change prompted by the SIPS paper, technology has made tremendous strides in the last few years democratizing innovation. Today we are seeing Fintech Innovation exploding (Medium, 2018)<sup>ii</sup>. NEACH believes that access to a ubiquitous and interoperable real-time payments system as proposed by the Federal Reserve, combined with Fintech partnership, will improve our members' ability to serve their communities.

## SUMMARY RESPONSE

During meetings and discussions about the Federal Reserve Proposal with numerous groups within the membership and staff, common themes arose. Below are areas where the groups easily agreed and had common understanding:

- There is a demand for a real-time gross settlement (RTGS) service in the Industry
- This service should be developed as soon as possible, preferably to be live by 2020, or shortly thereafter
- The feature set should be sufficient enough to offer a robust service to all participants
- Just as Same-Day ACH was ubiquitous for all ACH receiving institutions the day it was implemented, RTGS should allow for all institutions to be receiving institutions on implementation date
- The proposals' idea of developing a Liquidity Tool should be initiated, and the Federal Reserve should explore additional uses of the tool beyond the RTGS solution

### Auxiliary Services/Requirements

The discussion of auxiliary services inspired the deepest discussions and brought underlying industry challenges to the surface. Real-time gross settlement systems often are considered less risky, in that they are credit push systems. However, in light of recent news about a \$40 million loss by Venmo,<sup>iii</sup> and a \$15 million loss by SPEI<sup>iv</sup> in Mexico, members are concerned about security and fraud.

At our Member Meeting, there was a long discussion regarding fraud, fraud prevention and security. Members expressed that the bar needs to be raised in preventing losses. There are announcements of security breaches in millions of records almost daily, with no relief in sight. The meeting participants encouraged NEACH to ask that the Federal Reserve include fraud detection and prevention tools as part of its solution, with a particular focus on preventing fraud at smaller institutions.

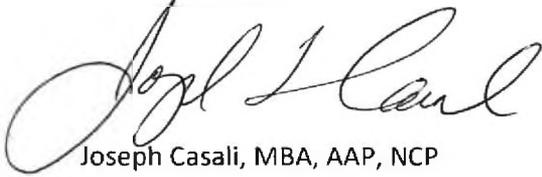
NEACH believes that it is time for a paradigm shift in security. As observed by a participant during the NEACH Member Meeting, people play a significant role in security breaches. It was also suggested that one of the driving factors of faster payments should be to provide benefits to an underserved portion of the population, for example, those unable to raise a small sum in the event of an emergency. The attendees identified that the underserved community is ill-prepared to defend against a sophisticated cyber-attack, and therefore, protections for this population should be included in the solution.

In addition to a security, common themes that arose in considering auxiliary services included:

- Payments Directory – a directory which allows a consumer to pay anyone, anywhere and at any time, that provides security, convenience, and ease of use
- Operating Rules – minimum guidelines that provide information on topics such as, but not limited to, operations, funds availability, and a dispute process
- Regulatory Guidance – with a new payment channel, determine which laws and regulations apply, and in what manner.

In closing, we again thank the Federal Reserve for the opportunity to submit our comments, and that of our members, to this process. NEACH and its membership cannot remember a more vibrant and exciting time in Payments!

Sincerely,



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<sup>1</sup> Fedpaymentsimprovement.org. (2018). [online] Available at: <https://fedpaymentsimprovement.org/wp-content/uploads/strategies-improving-us-payment-system.pdf> [Accessed 8 Dec. 2018].

<sup>2</sup> Medium. (2018). *How Fintech is Revolutionizing the World with Innovation..* [online] Available at: <https://medium.com/@MarutiTech/how-fintech-is-revolutionizing-the-world-with-innovation-30a30fc0764f> [Accessed 8 Dec. 2018].

<sup>3</sup> The Verge. (2018). *Venmo lost millions from fake payments this year.* [online] Available at: <https://www.theverge.com/2018/11/26/18112826/venmo-fake-payment-fraud-lost-millions-first-quarter> [Accessed 8 Dec. 2018].

<sup>4</sup> U.S. (2018). *Mexico central bank says hackers siphoned \$15 million from five....* [online] Available at: <https://www.reuters.com/article/us-mexico-cyber/mexico-central-bank-says-hackers-siphoned-15-million-from-five-companies-idUSKCN1IH38Q> [Accessed 8 Dec. 2018].