



December 12, 2018

Ms. Ann Misback, Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street & Constitution Avenue, N.W.  
Washington, DC 20551

Re: Comments on Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments

Dear Ms. Misback,

This comment letter represents the views of Cardinal Credit Union regarding the Request for Comment from the Federal Reserve Board of Governors related to the interbank settlement of faster payments. Cardinal Credit Union is one of the largest credit unions in Northeast Ohio, representing over 30,000 members in nine counties.

Cardinal Credit Union commends the approach taken by the Federal Reserve in issuing a request for comment on the potential actions to facilitate real-time interbank settlement of faster payments and liquidity management tools. We support the Federal Reserve's actions to promote a reliable, ubiquitous, and safe payment system in the United States. A faster payment system will support financial institutions in maintaining the current environment where access to funds is expected to be real-time.

Attached, please find Cardinal Credit Union's responses to the questions presented in the Request for comments regarding interbank settlement of faster payments.

Sincerely,

A handwritten signature in black ink that reads "Christine Blake".

Christine Blake  
President/CEO

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

Yes, Cardinal Credit Union agrees that RTGS is the appropriate arrangement for faster payments. It may be difficult for any private sector to create a sustainable system that provides equitable access and competitive fairness for all financial institutions, including credit unions. A RTGS settlement service avoids interbank settlement risk, thus creating a safer market to process faster payments.

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

Yes, the Reserve Banks should develop a 24x7x365 RTGS settlement service. The Federal Reserve Bank offers a safe and robust payment system in the U.S. that works in the interest in protecting the public. The Federal Reserve is in the best position to move funds outside normal business hours and manage cash collateral for faster payments.

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

Yes, there will be sufficient demand to support the development of 24x7x365 RTGS settlement services if the Federal Reserve develops the technology. Only the Federal Reserve can provide a payment system that is ubiquitous, safe, and efficient. Absent the Federal Reserve, Credit Unions would be hesitant to use any other technology.

There is demand for real-time payment processes. With today's technological advances, people interact, conduct commerce, and access information real-time. The nation's payment and settlement system needs to support this trend. Instant payments in B2B, B2C, and C2B have been popular over the years, but now P2P will generate significant demand as individuals become more accustomed to bill pay transactions.

**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?**

Without understanding the full model and resources needed to maintain higher levels of liquidity, staffing and technology will be the largest adjustments needed to operate this model.

The timeframe needed for these adjustments would depend on many factors including, but not limited to, infrastructure, the size of the credit union, staff expertise in payment processing, and what it takes to achieve ubiquity.

**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.**

Prior payment processing upgrades can provide examples in determining a timeline needed to implement a 24x7x365 RTGS settlement service. Federal Reserve and service provider leadership and availability will assist in the development and implementation. This will lead to a faster adoption of the services. Without a decision from the Federal Reserve and payment vendors, credit unions will be unwilling to make a commitment to the service.

**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?**

Operations, Accounting, and other department personnel will need to make themselves available to access borrowing and provide cash management services outside of normal business hours. Transaction limits, or prefunding potential exposure outside of normal business hours will need to be evaluated to reduce credit and liquidity risk. Amendments to certain agreements will need to be created in order to adopt these changes.

**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?**

This would place an additional burden on staff because they will have to manage multiple bank accounts. Liquidity management will also create unnecessary costs and potential lower interest earnings in managing separate accounts.

**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?**

A proxy database or directory would be beneficial in providing a seamless solution to end users. Using aliases, such as an e-mail address or phone number can help the Federal Reserve remain competitive with FinTech solutions that are operating in the current payment environment.

**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 prevention services are needed for a 24x7x365 RTGS settlement service. With the increase in fraudulent activity in today's marketplace, it is important to provide advanced technology to prevent end-user data from exposure. Compliance monitoring like OFAC and BSA will also need to be considered.

**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?**

Auxiliary services will need to be implemented to assist with liquidity management and the prevention of fraud. These services will help support a ubiquitous, nationwide infrastructure where credit unions can participate in faster payments. Unfortunately, fraud will still occur and the greatest burden will ultimately reside with credit unions and other financial institutions. Transaction limits would be a great way to assist in mitigating any losses.

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

Interoperability will need to flow through the Federal Reserve in order to achieve ubiquity. With a Federal Reserve service, settlement risk will be mitigated.

**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 service should be restricted to the faster payment process to ensure it operates as planned. Once cash management has been mastered, it may be used for international transactions.

**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?**

The Federal Reserve will need to take a clear and present role in the approach for implementation of a 24x7x365 RTGS settlement service. Without their lead, financial institutions will be lacking guidance and direction on how to comply with the initiative, potentially causing delay. Input and collaboration from all financial institutions, end-users, and vendors will be critical to ensure interoperability between all parties.

**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?**

Yes, the Federal Reserve should build a liquidity management tool that would create greater transparency for real-time interbank settlement of faster payments.

**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**

Fund originations are cumbersome and should be automated.

**ii. A tool that allows an agent to originate a transfer on behalf of one or more banks**

Use of an Agent is important since credit unions depend on corporate credit unions to handle settlements.

**iii. A tool that allows an automatic transfer of balances (or “sweep”) based on pre-established thresholds and limits**

This will help with liquidity management and establishing thresholds.

**iv. A combination of the above**

Limiting a solution to only one tool diminishes options for liquidity management.

**v. An alternative approach**

**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?**

To reduce cost, a liquidity management tool should have defined hours of operation and provide instruction for after hour settlement.

**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?**

Initially, this service should only be used for purposes of real-time settlement of retail faster payments. Only after it has shown to be a successful product, should it be looked at for other opportunities.

**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?**

Developing the settlement service and liquidity management tool in tandem is strongly recommended. The liquidity management tool is an integral part in the process and needed to ensure excess liquidity exists and prevent insufficient funds.

**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, both actions help achieve ubiquitous, nationwide access to safe and efficient faster payments.

**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?**

Educating all parties involved in the payment process to ensure industry collaboration.

**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?**

Assist in the development of P2P and P2B solutions for smaller financial institutions and credit unions.  
Increased Cybersecurity and prevention of fraud.