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Via Electronic Submission

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

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

Dear Ms. Misback,

Citibank, N.A. (Citibank) appreciates the opportunity to provide comments to the Board of Governors of the Federal Reserve System (“Federal Reserve”) in response to its request for comment (RFC¹) regarding the Federal Reserve’s development of an enhanced liquidity and 24x7x365 real-time gross settlement (RTGS) service. We have a strong appreciation for the Federal Reserve’s approach to promote faster payments in the United States and believe in the leadership role that the Federal Reserve can play to fulfill the vision of ubiquity by 2020 outlined by the Federal Reserve’s Faster Payments task force.

As described in its RFC, the Federal Reserve is seeking input on potential actions that it could take to promote ubiquitous, safe and efficient faster payments in the United States by facilitating real-time interbank settlement of faster payments, including: the potential development by Federal Reserve Banks of a service for 24x7x365 real-time interbank settlement of faster payments; and 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 Federal Reserve Banks. The Board sought input on whether these actions, separately, or in combination, or alternative approaches, would help achieve ubiquitous, nationwide access to safe and efficient faster payments.

¹ 83 Fed. Reg. 57351 (November 15, 2018).



Discussion

We appreciate the opportunity to comment on the RFC and welcome a direct dialogue with the Federal Reserve to further develop the recommendations presented below and to ultimately advance the interests of the payments industry in the United States.

Citibank fully supports the comment letter submitted today by The Clearing House Payments Company ("TCH"). Citibank and other industry representatives are in agreement with the rationale outlined in the RFC for faster payments in the US including the need for: (a) speed introduced by growing penetration of digitization in all aspects of consumers' lives (b) institutional clients wanting to deliver superior customer experience, and (c) an efficient management of liquidity across individual and institutional clients. We see strong demand for real-time payments in all industry sectors spanning retail and commercial use cases. We believe that the Federal Reserve can continue to play a pivotal role in the development and accelerated adoption of a modernized US payment system in line with other countries around the world.

Citibank has been a leader in promoting payment modernization related activities occurring around the world and in the US including the development of The Clearing House's Real-Time Payments (TCH) RTP® system (early adopter status) and Same Day ACH. Additionally, we participate in various local real-time payment systems around the world, and have a strategy to eventually be connected to these local systems in every major market. Not only have we integrated onto the real-time payment infrastructures over the years, but we have also played a role in the development of the schemes from a technical design, operational structure and commercialization perspective.

Summary Position and Recommendations

While recognizing the Federal Reserve's continued need to maintain a critical role in this area, Citi believes that the current approach taken by the Federal Reserve's Faster Payments Taskforce and Faster Payments Council (FPC) to encourage private sector-led solutions will expedite the Federal Reserve's desired results more so than the creation of a new RTGS system described in the RFC.

We believe that a combination of the TCH RTP with a 24x7x365 Fedwire Fund Service is fit for this purpose and operates on a platform that would require minimal modifications and incremental investment from ecosystem participants. Moreover, we are of the opinion that having multiple bank-led real-time systems is less



conducive for the industry and will result in duplicate investment by banks, ongoing fragmentation of payments in the industry and significant delays in achieving the Federal Reserve's goal of ubiquity by 2020.

Our recommendation is for the Federal Reserve to expedite its decision, consider leveraging existing platforms and ensure interoperability across Faster Payment platforms.

Response to Specific Questions Presented in the RFC

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

We believe that a viable real-time faster payment solution is essential to the modernization of the US payment system. This includes the support for clearing and settlement capabilities for banks and value-added payment capabilities for end users.

However, we believe that enhancing existing clearing and settlement models like the Fedwire Funds Service can sufficiently support the Fed's 24x7x365 goals and objectives for interbank settlement of faster payments (liquidity management services for faster payment schemes). The Fedwire Funds Service expansion to 24x7x365 availability will allow for the enablement of existing schemes to support continuous settlement and enhance liquidity management.

For example, the existing TCH RTP scheme works on a prefunded settlement model which requires participants to fund or receive disbursements through Fedwire Funds Service transfers to a joint account. Because TCH RTP operates 24x7x365 and the Fedwire Service does not, there are certain periods of time, such as weekends and holidays, when participants will be unable to fund their positions or receive liquidity from the system.

Given the anticipated and projected volume of transactions that are likely to move onto TCH RTP in the next few years, **we strongly endorse a transition of the Fedwire Funds Service to 24x7x365** from current 21.5x5 availability. A 24x7x365 Fedwire Funds Service solution would address these opportunities and significantly benefit the scheme overall. We are conscious of the operational and staffing considerations of the extension of the Fedwire Funds Service platform. We recommend that the extended hours be offered on an "Opt-in" basis initially. This option will allow banks to prepare based on their respective readiness to ramp up TCH RTP activity.



The extension of the Fedwire Funds Service will have merits beyond the support of optimized liquidity management for faster payments. Additional benefits of the Fedwire Funds Service expansion include:

- Support of international settlement shifting towards 24x7x365 – as demand for cross-border payments increases (driven by e-commerce and sharing economies), 24x7x365 Fedwire Service will be required for the US Dollar to continue to play a substantial role in international trade/settlements.
- Support of financial services ecosystems, both domestic and international, with substantial benefits beyond faster payments settlement including improved liquidity and risk management in the cross-border space.
- Support of foreign markets operating in time-zones or geographies where normal activity takes place during “off” hours (e.g. Asia) or “off” days (e.g. Middle East) in the U.S.

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

The RFC paper defines the Settlement Service as comprising of three underlying elements – *End User service* addressed at the sender and receiver of the payment, *Clearing service* aimed at the banks of the sending and receiving parties, and finally a *Settlement service* which is the core market infrastructure. We believe that the introduction of a new 24x7x365 settlement service may not be necessary or advantageous as there are several viable private sector led initiatives that were developed in response to the Federal Reserve Faster Payments Task Force white paper in 2015. Moreover, we believe that the rate at which the landscape for real-time payments is changing requires a rapid and continuous innovation that is best achieved through a market driven, private sector structure.

Furthermore, we believe that at this time, the introduction of a new Federal Reserve developed RTGS service would lead to market confusion and divert from current efforts to achieve the goal of ubiquity in 2020. In addition, the financial impact to the system overall in supporting the design, build and implementation of a second interoperable scheme will be material with potentially minimal upside for key stakeholders.

Citibank is committed to supporting faster payments platforms around the world that offer inclusive and equitable access with the following attributes:

- Comprehensive ubiquity to accelerate adoption and value for all participants
- Interoperability with existing platforms to reduce cost and ensure a consistent experience for users
- Industrial strength security (trusted platform)
- Best in class and comprehensive message set including exchange of payment and non-payment information which resonates with clients across segments



- Open and equal participation and representation for all (large and small)
- Parity on economics and capabilities to support inclusive participation
- Support for payment and receivable use cases
- Support and value proposition for both consumer and commercial flows

Ultimately, we believe that the TCH RTP system has all of these attributes and is well positioned to achieve the goals and objectives that the RFC highlights in terms of creation of a safe, innovative and efficient faster payment service. Significant progress has been made on the TCH RTP system with broad based support from the industry. The scheme has achieved material participation and enablement from banks since its inception in November 2017 and has a viable plan to achieve ubiquity by 2020 with the Federal Reserve's support.

Citibank believes that the Federal Reserve's goals can be effectively and efficiently addressed without the need to introduce the risk, complexity and potential disruption of another faster payment scheme. Moreover, in geographies where similar attempts were made, the following issues have been observed:

- ***Delays in adoption:*** Co-existence on multiple platforms adds to the available options but it creates a dilemma of potentially choosing between the newer system or an older solution with more coverage. This typically leads to both financial institutions and prospective participants with limited resources ending up waiting on the sidelines thereby affecting the overall ubiquity.
- ***Difficulties in achieving interoperability:*** Closed-loop systems that lack interoperability can be expected to severely impair adoption and achieving interoperability requires significant focus and attention during design and development phases.
- ***Lack of incentives for financial institutions to participate and innovate*** in an expedited manner if the market continues to remain fragmented and ubiquity remains in question.

3. How important are these auxiliary services for adoption of faster payment settlement services by the financial services industry? (Fraud and Directory Services)

As we consider widespread market adoption, we believe auxiliary services like directory services are critical in the US Market. We favor the use of existing directories either in a stand-alone or federated model, rather than creation of a new database. TCH is already contemplating an interoperability model with one of the most prominent consumer directories in the US – Zelle. We believe that this portability and alias based structure is very important to ensure a positive user experience and a viable step towards tokenized payments in the US.



Given the speed and certainty of funds that real-time payments offer, early fraud prevention is key. While banks have strong fraud detection processes at their end, a network level utility will go a long way in building trust on the newer platform amongst its end-users.

Conclusion

We welcome and agree with the Federal Reserve's interest in making real-time payments in the US ubiquitous. We believe that the Federal Reserve outlined goal of ubiquity by 2020 is an ambitious, yet achievable target. As an industry, it is incumbent upon all of us to do everything possible to ensure widespread adoption of faster payments in the US. We believe that the TCH RTP system has best in class attributes, and is the fastest and most efficient way to achieve the 2020 ubiquity that the Federal Reserve seeks. As a result, we recommend that the Federal Reserve:

- Accelerate its decision and public notice in order to expedite next steps and minimize impact of market uncertainty
- Consider alternative initiatives to support ubiquity in 2020 including:
 - Developing a future proof 24x7x365 Fedwire Funds Service solution to:
 - Support liquidity management objectives laid out in the RFC
 - Strengthen the position of the USD around the world
 - Support global customers in other time-zones
 - Endorsing and promoting the existing TCH RTP scheme across all sectors
- If the Fed chooses to proceed with a new RTGS build, a focus on interoperability will be critical for all ecosystem participants and essential to achieving ubiquity. It will enable payments and payment information to move seamlessly, regardless of the varied solutions end users may be using. It will be vital to engage the market, TCH and banks quickly to evaluate the feasibility and practicality of a truly interoperable solution.

In conclusion, we are very supportive of the role that the Federal Reserve can continue to play in catalyzing the existing Faster Payment schemes in the US to achieve ubiquity by 2020. We are very keen to cooperate and hope to be engaged to create an open and inclusive environment to modernize payments in the United States.

Best Regards,

A handwritten signature in blue ink that reads "Michael L. Corbat".