



December 14, 2018

By Electronic Submission (regs.comments@federalreserve.gov)

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

Re: Potential Federal Reserve Actions To Support Interbank Settlement of Faster Payments • Docket No. OP-1625

Dear Sir / Madam,

SIFMA is supportive of the work the Federal Reserve Board is doing to develop new payments platforms and services which will support the further development of ubiquitous, safe, and efficient faster payments and the expansion of the payments market infrastructure to 24x7x365 service.

Recent years have seen a broad range of major new payments innovations in the US and internationally, ranging from the creation of new retail oriented P2P payments platforms to initiatives to expand and modernize existing wholesale payment networks. These initiatives have benefitted securities market participants and their clients and demonstrated the potential impacts that new payments infrastructures can have - both by improving client experiences and by providing a platform for the development of new services as well as improvements in internal industry processes. We are encouraged to see the Federal Reserve Board also exploring how

¹ SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's nearly 1 million employees, we advocate for legislation, regulation and business policy, affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA).

they can develop new payments infrastructure. Given the critical role existing Federal Reserve payment systems play in the securities markets and their reach and ubiquity throughout the financial system, this work by the Federal Reserve to develop new payments offerings could have great benefits for securities markets participants.

Given the early stage of the proposals discussed by the Federal Reserve in the notice, SIFMA and its members would like to use this opportunity to share our perspective on a number of securities markets specific operational, risk, and regulatory issues which we feel would be valuable for the Federal Reserve Board to consider as they move forward with the development of any new payments platforms. We hope that by raising these questions and issues early in the development process, they can be incorporated into the planning process, so any future new payments system can be built and operated in a way that integrates most effectively with the securities markets and the regulatory framework that governs them.

Consideration of these issues as the more detailed proposals are developed will be important in ensuring that any new payment services have the greatest benefit to securities market participants and their clients.

Operational Impacts

Variations in operational impacts across the securities industry

The Federal Reserve paper requests industry perspectives on the operational burden of supporting a 24x7x365 real time gross settlement (RTGS) payment system, and while SIFMA would like to share a number of considerations around the operational impacts of supporting such a system, it is very difficult to make any statement on the scale of operational impacts on an industry-wide basis. While the costs and operational impacts would likely be large for firms to bring their operations in line with these new services, it is very difficult at this time to accurately estimate what they would be.

The range of different business models within the industry mean there will be different levels and types of customer demand for these new services which need to be accommodated. On the operations side, firms have large differences in their operating models and back-office systems and infrastructure configurations, which result in substantial variation in the level of change necessary. Reasons for this variation include the international activity of the firm and whether or not it has affiliates active in international markets, which may mean it already has built its

systems to provide a larger time window of operations and has infrastructure and processes which are already configured to support a range of different international payment systems.

Types of operational impacts

Firms will need to manage a range of types of operational impacts as they prepare to work with a future 24x7x365 RTGS payment system, potentially including additional data centers, changes to secondary operational processes and the infrastructure and staffing that support them, as well as the availability of on a 24x7x365 basis of operations, risk management, and compliance staff.

In addition to “back office” operational impacts, a 24x7x365 service would also have impacts on the customer facing side of firms, with a need for staff who can support clients making transactions at new times. Staffing changes would be needed across a wide range of product areas, ranging from prime brokerage to retail clients. Requiring staff availability to support payment processes on Sundays and holidays would create an additional set of human resources, transportation, and other operational issues. These staffing impacts would include transport and training costs for supporting shifts outside of regular business hours.

This new service and its operating times raise questions about when firms would be able to bring down their systems to carry out maintenance and upgrades. For example, how many instances of systems would firms need to have in order to be constantly available to support 24x7x365 availability? Similarly, compliance with disaster recovery, BCP, and other systems resiliency and contingency planning requirements and best practices will also have to be considered as firms think how to modify their systems and processes to work with any new service.

Impacts on market infrastructure and third parties

The operational impacts of any new service will also extend beyond securities firms themselves to the infrastructure and third-party service providers they work with, and planning for the integration of any new system into the securities markets and their processes will need to take the role of the organizations into account. Firms and other market infrastructure and service providers (i.e. exchanges, post trade utilities, vendors etc.) will need to work to understand how this service would impact their global operating models as well as the impact on securities industry processes which currently operate on a batch processing cycle, often with certain activities carried out in a night cycle.

New services will also have an impact on securities market infrastructures, such as clearing houses and securities depositories. Their current operational and liquidity management models may be affected by the availability of new payment services and timelines they operate on. Any resulting liquidity changes at FMIs resulting from the impact of new payment services will have ripple effects throughout the industry, affecting firms through both operational process changes and changes to how liquidity is handled as it flows from FMIs. There would also be operational impacts on the third-party service providers who handle a broad range of critical operational post trade processes for brokerage firms, as many of those providers operate on a batch processing environment.

Interoperability and interactions with other payment systems

The interoperability of any new payments system with existing payments infrastructure will also be a key issue to be addressed in planning for its operational impacts. This planning should also bear in mind the changes that are currently underway at existing payments infrastructure, such as The Clearing House's Real Time Payments initiative, to ensure that that end users are able to work with a wide range of complementary payments infrastructure offerings. In looking at interactions with other payments systems, the Federal Reserve should consider what if any the dollar size threshold for payments under this new service be. If there is a threshold, it should not be too low, like ACH or independent retail oriented P2P systems, and should be closer to Fedwire instead.

The development process for these new tools should also explore an upper limit on transaction sizes, specifically how an upper limit (or the lack thereof) could impact management of liquidity issues at the firm level during a stress event, as well as the impact on the on the overnight funds planning process for broker dealers.

Any new service would offer the greatest benefit to securities industry if it can be configured so that broker dealers (including non-bank broker dealers) can have direct access to the platform and its services, not just indirect access through a settlement bank.

In case of multiple RTGS systems, interoperability amongst them is critical to ensure ubiquity and adoption. Given the importance of insuring interoperability among existing payments systems and the challenges around achieving true interoperability in timelines aligned to the Federal Reserve's goal of ubiquity by 2020, we believe that the Federal Reserve should explore developing any new 24/7/365 RTGS Faster Payment system not as a new standalone system, but as an expansion of the services and days and hours of operation of the existing Fedwire

platform and its expansion to offer liquidity management benefits. This would help prevent fragmentation in the payments platform landscape and build on the close integration of Fedwire in the current operating model of the securities markets and their participant firms, and expand service with minimal disruption to the industry processes which are built around existing processes.

24x7x365 Availability of Interbank Payments Systems

The Federal Reserve paper outlines a proposed 24x7x365 real time gross settlement (RTGS) system. 24x7x365 operations would clearly offer a number of benefits to clients and mark clear dedication to making faster payments available at all times, and we are supportive of the Federal Reserve's work to develop payment offerings which allow clients the ability to initiate payments at whatever time meets their needs. However, we would like to raise a number of operational issues which we feel should be considered as the Federal Reserve explores what 24x7x365 availability would mean in practice and what impacts it would have on securities markets participants, both financial institutions, market infrastructure providers, and their retail and institutional clients.

From a client and customer perspective, 24x7x365 availability would likely be welcome, as there are a number of use cases where access to funds transfer services outside of regular business hours would be a valuable service. However, this timing model would also have a number of operational and back office impacts which should be considered – both to understand the impact it would have on market participants and their compliance with regulations and also given the limitations that they may pose on the actual availability of funds on a 24x7x365 basis. Any decision on 24x7x365 availability and how it is configured should also reflect what other funds transfer and payment services offer. In addition, as the Federal Reserve explores what 24x7x365 availability would look like in practice, it should also include a review of potential global holiday closures.

Interactions with current securities market regulations

As the industry adopts a new payment tools, especially those which offer new timeframes or operating models, it will be necessary to look broadly at the securities industry ruleset to understand how these new services and the changes to processes they may drive can be incorporated into the regulatory framework across multiple regulators which governs securities markets and broker dealers. From a regulatory perspective, the ability to move funds in and out

of brokerage accounts on a 24x7x365 basis could create conflicts with existing rules, specifically those that govern the handling and protection of client assets.

For example, SEC Rule 15-c-3-3, covering customer protection around reserves and the custody of securities is written and interpreted around a schedule for movement of funds and securities reflecting a regular business day, not 24x7x365 funds movement. For example, if clients sent cash to a brokerage account and it was able to be credited to the client account after normal working hours, firms would have challenges with the reserve deposit requirements under Rule 15-c-3-3. This would be especially true with weekend deposits made using any new system. For example, rules governing activity on “end of day Friday” would need to be interpreted to reflect the movement of funds on Saturday or Sunday.

This examination of the regulatory impacts of new service availability and configuration should also include consideration of its impacts on how the operations and definition of a settlement day in the securities market could change, as well as its impact on related issues such as claims. Similarly, the treatment of “business days” under Federal Reserve Board Regulation T could need reinterpretation. Another possible area of regulatory impact could be the many definitions of “payments” across the regulatory rulebook (e.g. Title 17 of the Code of Federal Regulations Chapter II and the Investment Company Act of 1940, among others).

Similarly, 24x7x365 movement of funds into accounts may also create complications for ensuring that retail cash deposits outside of regular business hours are handled in ways meet Securities Investor Protection Corporation (SIPC) asset protection requirements. Additionally, looking beyond listed securities, there will be similar impacts on products such as cash derivatives, given their rulesets. The process of developing these tools may also include consideration of whether there are certain qualifying account types which can use the network.

Dialogue with the industry and with other regulators and supervisors to understand and manage these regulatory impacts will be a critical part of the successful implementation of a new payments platform.

Availability of funds held in cash equivalent products

There may also be areas where client expectations based on the availability of their funds on a 24x7x365 basis using new infrastructure cannot be supported operationally due to interactions with other products and infrastructures which do not operate on a 24x7x365 basis. For example, client cash at securities firms is often held in a brokerage sweep account, which

directs cash to be “swept” to other cash equivalent products such money markets funds or FDIC insured brokered deposits. While these assets are seen as available cash from a client perspective, the markets and processes that move funds in and out of these products might not make them truly accessible and available to be moved at certain times outside of regular business cycles, limiting the true availability of client cash on a 24x7x365 basis.

Optional participation for smaller firms

Given the operational challenges to support 24x7x365 payments and the potential need for considerable infrastructure and staffing changes needed to accommodate this new timeframe at some firms, the Federal Reserve may want to consider making participation in 24x7x365 service optional for some firms. This could be the case for smaller US focused firms, who do not already have a “follow the sun” model of infrastructure and staffing that some globally active firms do, and whose clients may not have demand for continuous availability of real time payments. For these firms, supporting payments on a 24x7x365 basis would have substantial costs with limited client benefits. Allowing firms in this situation to participate on a more limited schedule would substantially reduce the burden on them, while still providing the benefits to continuous real time payments to firms whose infrastructure and client expectations are more closely aligned with the service.

24x7x365 Operations from a client perspective vs. an operational perspective

As outlined above, truly 24x7x365 payment operations create substantial costs and operational challenges well above those of even expanded service windows, such as 24x6 or 20x7. In order to accommodate firms’ needs for time to bring down systems for maintenance and upgrades and the staffing issues associated with truly continuous payments availability, we suggest that the Federal Reserve explore options where the payments service available to the client on a 24x7x365 basis, but that some transactions are not settled until later to allow for a window when back-office operations are not taking place.

In this model, from the client’s perspective there is 24x7x365 availability, but having a somewhat shorter back-end operating cycle could reduce the impacts and disruption for banks and broker dealers. For example, there may be times when it is necessary for operational reasons to have a hard close on the back-end operations of funds transfer, even if from a customer perspective the service is available.

The development of a 24x7x365 payment offering would offer a range of benefits to clients, and consideration of these operational issues and engagement on regulatory issues throughout the rulebook that governs the securities markets during the development process will help ensure that any new offering will deliver service improvements for securities market clients while minimizing disruption.

Risk Management, Fraud, and Cyber Security

Ensuring the security of payments infrastructure is critical for the financial system and to maintain the confidence of market participants, end users, and retail customers and investors. The introduction of a new 24x7x365 RTGS payment system would require securities firms to assess a broad range of risk management and fraud prevention procedures and understand how they would need to change to accommodate the timing and operating model of this service, while still protecting clients and meeting their regulatory obligations.

For example, processes like Office of Foreign Assets Control (OFAC) and anti-money laundering (AML) oversight would need to be adapted to meet the new operating model. At a basic level, staffing models for these functions would need to be adjusted to support 24x7x365 payments. At a process level, there could be larger impacts, as risk management tools will need to be robust enough to make decisions on a real time basis to accommodate new payment timeframes, and firms will need to have robust enough risk management tools to manage the risks associated with real time payments. Risk management tools would need to rely more on preventative strategies and analytics to flag potential fraud and prohibited transactions in real time. The use of these tools could also mean a change from what regulators currently expect in terms of firms' monitoring of activity, and the industry would need to ensure that regulators would be comfortable with any adjustments.

Retail oriented fraud prevention service offerings such as Asset Protection Guarantees for account takeover and fraud may also be impacted by payments systems with new timelines. These offerings currently take advantage of the timeframes for ACH transfers to identify and stop suspicious payments. Moving to real time payments on a 24x7x365 basis could make it more difficult to reverse fraudulent transfers and mitigate the effects of account takeovers.

There are also broader risk implications if firms' approaches to liquidity management change as a result of new funding timelines driven by these new tools. Firms will need the right risk management tools to manage liquidity impacts in real time.

More broadly, payments systems and firms' points of connection with them have been identified as a key cybersecurity risk, and the industry and current payments infrastructure providers have been working to ensure that these systems are protected and the cyber risks are understood and managed. The introduction of a new 24x7x365 RTGS payment system will also need to draw on the work that has been done and the lessons learned in securing these critical payments infrastructure services and ensuring the cyber resiliency of the firm-specific processes and systems that work with them.

In conclusion, SIFMA appreciates the opportunity to provide our recommendations and considerations to the Federal Reserve Board at the start of this important process. The continued development, expansion, and modernization of payment systems and infrastructure is a critical part of the ensuring that securities markets clients receive the highest levels of service and the markets can operate in the most secure and efficient manner possible.

We are encouraged to see the Federal Reserve Board working to develop 24x7x365 real time gross settlement payments service, and encourage the Federal Reserve to explore if this can be done through the expansion of the hours and services provided by the existing Fedwire platform to meet the goal of faster payments ubiquity while servicing the needs of the industry. We look forward to working with Federal Reserve as the project moves forward. We believe that continued dialogue with the industry will be critical during the design and planning of any new service to help understand how it can best integrate into the securities market and its operations and regulatory framework, and we would be happy to provide any additional information to support the Federal Reserve Board in this process.

Sincerely,

A handwritten signature in black ink, appearing to read "Thomas F. Price". The signature is fluid and cursive, with the first name "Thomas" and last name "Price" clearly distinguishable.

Thomas F. Price
Managing Director
Operations, Technology & BCP



Charles De Simone
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cc:

Kirstin Wells, Principal Economist, Division of Reserve Bank Operations and Payment Systems

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Gavin Smith, Senior Counsel, Legal Division, Board of Governors of the Federal Reserve System