

December 14, 2018

[Via Email \(regs.comments@federalreserve.gov\)](mailto:regs.comments@federalreserve.gov)

Ms. Ann 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

Dear Ms. Misback:

Mastercard International Incorporated (“Mastercard”) submits this comment letter to the Board of Governors of the Federal Reserve System (the “Board” and together with the Federal Reserve Banks, the “Federal Reserve”) in response to its request for comment regarding potential Board actions to support interbank settlement of faster payments (the “Request”). The Request discusses the Board’s proposal to (i) build and operate a real-time gross settlement (“RTGS”) service for retail payments, (ii) offer RTGS auxiliary services (*e.g.*, a directory service) and (iii) provide an RTGS service liquidity management tool. Mastercard appreciates this opportunity to comment on the Request.

Background on Mastercard

Mastercard is a technology company in the global payments industry. Mastercard operates the world’s fastest payments processing network, connecting consumers, financial institutions, merchants, governments and businesses in more than 210 countries and territories. Mastercard’s products and solutions make everyday commerce activities—such as shopping, traveling, running a business and managing finances—easier, more secure and more efficient for everyone.

Although Mastercard does not issue payment cards of any type, nor does it contract with merchants to accept those cards, Mastercard provides the networks through which its customer financial institutions interact to complete payment transactions. Mastercard also owns the Mastercard family of brands and licenses financial institutions to use those brands in conducting payment transactions.

Introduction

The Board requested feedback on all aspects of the discussion in the Request, including the following questions in the Request:

- Should the Reserve Banks develop a 24x7x365 RTGS settlement service? Why or why not?
- Would Federal Reserve action in faster payment settlement hasten or inhibit financial services industry adoption of faster payment services? Please explain.

In our view, the Board should not undertake any of the proposed actions in the Request – it should not develop a 24x7x365 RTGS settlement service, it should not create and offer auxiliary services, and it should not create and offer a liquidity management tool.

The proposed actions discussed by the Board in the Request would result in far-reaching changes to the retail payment system in the United States that, if undertaken, likely would distort competition, thwart innovation and slow progress toward faster payments in the United States. Moreover, because private industry has been advancing toward faster payments on a national scale, it is our view that the Board has not satisfied its own “long standing principles and criteria” to warrant a government intervention of this nature and magnitude for the introduction of a new payment service. The long-standing principles and criteria when evaluating the potential introduction of a new payment service include expectations that:

- (i) the Federal Reserve will achieve full cost recovery over the long run, (ii) the service will yield a clear public benefit, and (iii) the service is one that other providers alone cannot be expected to provide with reasonable effectiveness, scope, and equity.¹

In particular, the services that the Board proposes are not ones “that other providers alone cannot be expected to provide with reasonable effectiveness, scope, and equity.”² For these reasons, as discussed further below, the Board should not develop an RTGS service, RTGS auxiliary services or an RTGS liquidity management tool.

We believe the appropriate role for the Federal Reserve in achieving faster payments in the U.S. retail payments system is to continue to facilitate industry dialogue, collaboration and problem solving rather than to undertake directly to build infrastructure that will compete with the faster payment efforts of private industry that are already well underway. The next step toward achieving faster payments in the United States will not result from a government-operated infrastructure, but from new and better end-user services – and private industry already is working to solve that challenge.

¹ Federal Reserve System, *Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments*, Request for Comment (Oct. 3, 2018), at 8 (citing Board of Governors of the Federal Reserve System, “The Federal Reserve in the Payments System,” Issued 1984; revised 1990).

² *Id.*

Comments

The Context for the Board's Proposed Services

We respectfully dispute the Board's description of the context in which it published the Request. We believe the characterization in the Request of the retail payment system in the United States understates to a significant degree the progress of private industry toward faster payments expansion and overstates market demand for the Federal Reserve to intervene in the U.S. retail payment system. In its description of the market, the Board makes two initial assertions: that the retail payments industry (i) has failed to adapt to technological advancements and (ii) has failed to meet end-user expectations.

To support its first assertion regarding technological advancements, the Board provides an example of a business in Florida that uses email as a communications technology to deliver immediately an invoice to a customer in Oregon, but, as the Board explains, receipt of the corresponding payment from the Oregon customer "may take days to receive, even if initiated quickly."³ The example is intended to illustrate that the communications sector has adopted technological advancements that speed the delivery of invoices while the payments sector has not adopted technology to speed the payment of invoices. This assertion, however, is true only if the Oregon customer uses the oldest available payment technologies. The assertion is rendered false when the Oregon customer uses state-of-the-art payment services, such as those described by the Board elsewhere in the Request. As the Board observes later in the Request:

Recently, other faster payment services have emerged in the United States that are based on transfers between bank accounts. These include services that allow end users to send or receive faster payments using the debit card infrastructure of certain payment card networks and services that allow faster payments over newer proprietary payment networks owned by groups of banks. The end-user service can involve a service-specific website or mobile application or may be integrated into a participating bank's website or mobile application, similar to many existing online bill payment services. For business customers, the end-user service may be integrated into a bank's back-end payment processing infrastructure.⁴

These technologies are easily accessible. If the Oregon customer uses one of these currently available payments technologies described by the Board, the Oregon customer's payment will be received and accessible immediately by the Florida business. The companies that offer these technologies, and competing ones, are deploying their services rapidly across the U.S. We discuss examples below. These examples demonstrate how private industry is doing precisely what the Board seeks and is bringing the Federal Reserve's vision of faster payments to the U.S. market. Thus, the Board's assertion that the payments industry has not adopted technological advancements to improve the speed of payments in a way that is analogous to how email has improved the speed at which a business can send invoices does not account for the

³ *Id.* at 1.

⁴ *Id.* at 20-21.

reality of the marketplace and all of the relevant facts, including facts that the Board itself outlines elsewhere in its own Request, such as in the above-quoted excerpt from the Request.

With respect to the second assertion the Board makes to set the context for the Request – that the payments industry has failed to meet end-user expectations – it is a narrative that the Federal Reserve has apparently sought to establish for some time. Indeed, this position was foreshadowed by the Federal Reserve in its 2013 *Payment Sector Improvement – Public Consultation Paper*.⁵ We are troubled by this context-setting assertion. Back in 2013, private industry was already making investments and looking to scale faster payments. Private industry has made massive investments and significant strides in the last five years toward the Federal Reserve’s desired state of faster payments in the U.S., including meeting end-user expectations, and at significant cost. In our view, the Board’s discussion gives short shrift to these private-sector efforts to promote and provide faster payments.

Mastercard has been instrumental in advancing one of the types of faster payments discussed in the Request through its Mastercard Send service. Mastercard Send facilitates the secure delivery of funds between senders and receivers, typically within seconds, so that businesses, merchants, governments, humanitarian organizations, financial institutions and others can send money to consumers and small businesses domestically and cross border. The service supports multiple use cases including person-to-person (“P2P”) payments, business-to-consumer disbursements, and business-to-business payments. In the U.S. market, Mastercard Send can reach the vast majority of debit cards including Visa debit cards. Mastercard has invested hundreds of millions of dollars developing the capabilities that underpin Mastercard Send. This service both (i) incorporates advanced technology and (ii) meets end-user needs. For example, Mastercard Send facilitates Google Pay™ real time P2P transactions, enables Allstate to pay insurance claims in real time and helps companies in the gig economy pay contractors in real time by enabling P2P transfers. Mastercard Send has even been used by a major disaster relief organization to enable it to disperse aid to disaster victims. Mastercard Send is scaling rapidly and we see abundant real-time payment opportunities for this service.

Moreover, a number of other participants in the U.S. retail payment system have developed widely available faster payments services. For example, Visa offers a service through its thousands of bank customers that competes with Mastercard Send, known as Visa Direct. Another competitor in this space is Zelle, which is a network owned by a group of banks that allows end users who have accounts at those banks or other banks in the United States to send payments that are accessible by the recipient in real time. In 2017, The Clearing House (“TCH”) launched its Real-Time Payments (“RTP”) service, which facilitates real time payments. This year the National Automated Clearing House Association implemented the third phase of its Same Day ACH initiative, which will allow financial institution to send same-day ACH transactions, and announced new rules that will go into effect through 2020 to further these capabilities. The Board has implied that the need for end users to sign up for these services

⁵ “End users have access to powerful communications technologies, and this is changing not only how they want to make payments, but also how they manage their finances. The next-generation payment system must accommodate these evolving end-user payment preferences.” Federal Reserve System, *Payment Sector Improvement – Public Consultation Paper* (Sept. 10, 2013), at 2.

could impede ubiquity.⁶ But, these faster payment services generally are offered to end users through the same process that is used by depository institutions to offer other services today (e.g., ACH-based electronic fund transfers). That is, the end user's use of the service constitutes agreement to terms and conditions of the service provider. If the Federal Reserve were to provide an RTGS service, depository institutions and others that used the service would have to sign up end users in essentially the same way, so the Board's proposal would not be solving the supposed pain point in any case. Thus, we do not anticipate that the end-user experience will impede ubiquity.

As these and other services rapidly mature, the market will select winners, drive collaboration, and demand alignment and interaction, to achieve ubiquity. When one considers how far the market has already evolved since the *Public Consultation Paper*, it is misplaced to assert that private industry is not meeting end-user expectations. Moreover, it seems a certainty that private industry will soon reach the desired state of faster payments in the United States without the Federal Reserve undertaking the actions proposed in the Request. The proposition that the Federal Reserve would move faster and achieve more scale when the private sector has at least a five-year lead is flawed.

The Reality of Deferred Net Settlement

Settlement for Mastercard Send and some other private sector offerings is carried out on a deferred net settlement ("DNS") basis. The Request argues that, during a period of financial stress or in the case of rapid withdrawals from a troubled participant, credit and liquidity risk may become particularly pronounced in the case of a 24x7x365 faster payments system. While the Board describes the ways in which DNS services mitigate these risks, ultimately the Board concludes that an RTGS service is preferable for settlement of faster payment over the long term in the United States. We respectfully disagree. Well-managed DNS services have stood strong during both times of financial stress and instances in which participants have failed to honor their settlement obligations. At Mastercard, we have over 60 years of evidence, through multiple economic cycles, to support our position on this point.

Even if one concluded that an RTGS service was preferable to a DNS service for settlement of faster payments, this alone would not justify the Federal Reserve building such a service in competition with private industry. There is already a private-sector offering that operates its service based on an RTGS model, with settlement occurring through a joint account held by participants at a Reserve Bank. Its owner, TCH, is working to ensure that every financial institution, large and small, has access to the RTP service by 2020.⁷ Rather than build its own,

⁶ For example, the *Public Consultation Paper* states that "[n]ew electronic networks are proliferating, including networks for person-to-person transfers, online merchants, business trade payments, and others. However, many of these networks do not have a broad base of members, which makes it inconvenient or impossible for in-network end users to make or receive payments to or from out-of-network end users. By contrast, legacy payment systems are nearly ubiquitous and allow end users to send payments to almost any receiver, without requiring the receiver to enroll in the system to retrieve the payment." *Id.* Legacy payment systems, however, did not achieve near ubiquity overnight. In a country the size of the United States, it takes time to achieve nationwide scope.

⁷ <https://www.theclearinghouse.org/payment-systems/rtp/> ("The Clearing House is working with providers of core processing and payment services, bankers banks, and corporate credit unions to ensure that every financial

duplicative RTGS infrastructure, the market would be better served if the Board would use its considerable resources to work with private industry RTGS and DNS service operators on issues of importance to the Board, such as settlement risk management or accessibility of a settlement service to small banks.

Achieving Faster Payments in the U.S. Market

Private industry is already moving the U.S. payment system toward ubiquitous faster payments. Mastercard, Visa, Zelle, TCH and others are competing to achieve this reality. A government-operated settlement infrastructure is not only unnecessary but may meaningfully inhibit this progress. Specifically, any such endeavor by the Federal Reserve would cost hundreds of millions of dollars, take years to build and result in a marked delay in bank adoption of faster payments. The costs to banks to have to put in place new infrastructure to make use of the new service and maintain it on an ongoing basis may be burdensome, especially on smaller banks.⁸ Indeed, feedback we have received from the market suggests that, as a result of the Request, banks have decided to suspend investment in faster payments until they know what actions the Federal Reserve will take. The Board seems to appreciate this deleterious effect, as it acknowledges in the Request that the introduction of a Federal Reserve RTGS service could disrupt the existing faster payment market.⁹

Furthermore, these disruptive effects would be compounded by the Board's significant influence over financial institutions as a supervisory agency for many banks and all bank and thrift holding companies. The reality of this dual role is that it likely would unfairly tilt the competitive landscape in the Federal Reserve's favor as financial institutions could feel pressured to use the Federal Reserve services rather than private industry alternatives. It is therefore natural that we would be concerned that the Board's proposed RTGS service, in the long run, will lead to less investment from the private sector, less competition, less innovation and thus a less-effective payment system.

The Board has justified, in part, its interest in developing the proposed RTGS service on the belief that the Federal Reserve has a fundamental responsibility to ensure that there is a flexible and robust infrastructure supporting the U.S. payment system on which the private sector can develop innovative payment services that serve the broadest public interests.¹⁰ However, this view is based on an interpretation by the Board of its own policies and research, not on its

institution in the U.S. has an easy way to access the RTP network by 2020.”). We understand that TCH is pricing its RTP services in a manner that will facilitate widespread participation by small banks.

⁸ This would be particularly so if the pricing of a Federal Reserve RTGS service followed the approach of the Federal Reserve pricing for its ACH service, where the Federal Reserve offers discounts based on transaction volume, which may disadvantage smaller banks vis-à-vis larger banks.

⁹ Federal Reserve System, *Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments*, Request for Comment (Oct. 3, 2018), at 37.

¹⁰ *Id.* at 5-6.

authorizing statute. While the Federal Reserve Act establishes legal authority for some Federal Reserve payment services, it does not speak of this responsibility and it establishes limits.¹¹

Moreover, the Board has implemented this legal authority with “long-standing principles and criteria” for when it will compete with private industry. We believe that those principles and criteria are not satisfied in the case of the proposed RTGS service. In particular, as the discussion above of the rapid evolution of faster payments in the U.S. illustrates, the Board has not made a demonstration that the service would be “one that other providers alone cannot be expected to provide with reasonable effectiveness, scope, and equity,” or that “it may be necessary for the Federal Reserve to provide a payment service to ensure that an adequate level of service is provided nationwide or to avoid undue delay in the development and implementation of the service.”¹²

Finally, the Board uses a comparison of the development of faster payments in the United States to the development of faster payments in other countries to support its proposed actions, but we believe that this is a false comparison. The retail payment system in most other countries does not have the size, complexity and number of participants as the payment system in the United States. Thus, government involvement is less complicated. Also, importantly, the United States economy is built upon the capitalist theory of free market competition and limited government intervention, which is not true of many other countries including several Western Europe countries that have adopted government-operated faster payments models. In our economic model, the Board should only intervene when careful consideration shows that there is a market failure and that private industry efforts will not correct the problem. This is simply not the case for faster payments, based on the numerous private industry efforts underway to develop services with which the Board’s proposed services would directly compete. If there are shortcomings in faster payments, they do not relate to the underlying settlement services but rather the types of services available to end users. In seeking to address the underlying settlement system, the Board is trying to solve a problem that does not exist.

Auxiliary Services and Liquidity Management Tool

For the sake of completeness, we note that Mastercard’s position against the Board’s proposed RTGS service applies equally to the proposed auxiliary services. Similarly, the Federal Reserve is not uniquely or especially qualified to provide a liquidity management tool. Would a private-sector technology company not be better positioned to develop software to alert banks about the amount of funds in their Federal Reserve accounts? We expect that there will be even more private industry capability and competition in the auxiliary services described in the

¹¹ 12 U.S.C. § 248a(c)(3) (addressing the pricing of Federal Reserve services: “Over the long run, fees shall be established on the basis of all direct and indirect costs actually incurred in providing the Federal Reserve services priced, including interest on items credited prior to actual collection, overhead, and an allocation of imputed costs which takes into account the taxes that would have been paid and the return on capital that would have been provided had the services been furnished by a private business firm, except that the pricing principles shall give due regard to competitive factors and the provision of an adequate level of such services nationwide.”).

¹² Board of Governors of the Federal Reserve System, “The Federal Reserve in the Payments System,” Issued 1984; revised 1990.

Request than in the underlying settlement service. Thus, there is less justification for the Federal Reserve’s proposed services with respect to auxiliary services and a liquidity management tool.

Role of the Board Going Forward

Mastercard believes that the Board can and should play an important role in facilitating ubiquitous faster payments. We believe, however, that the appropriate role for the Board to take is to continue to facilitate collaborative efforts to develop ubiquitous faster payments and support private sector innovations. The Board has done this to great effect over the past several years as it published the *Public Consultation Paper* and its strategies for improving the U.S. payment system, steered the Faster Payments Task Force (the “FPTF”), the Governance Framework Formation Team, and other working groups that led to the formation of the new Faster Payments Council. The state of faster payments in 2018 compared to 2013 provides incontrovertible evidence that the catalyst role is the proper role for the Federal Reserve as the U.S. payment system advances rapidly toward faster payments.¹³

In a 2012 speech, then-President and CEO of the Federal Reserve Bank of Cleveland and Chairman of the Federal Reserve’s Financial Services Policy Committee, Sandra Pianalto, outlined a vision for the Federal Reserve’s role in retail payments.¹⁴ Ms. Pianalto predicted that “the payment industry of the future will move transactions faster from origination to settlement,” function more efficiently and respond to consumer preferences. Ms. Pianalto’s vision was reflected in the *Public Consultation Paper* a year later. Ms. Pianalto also informed the audience that “[t]his vision is driving our plan of action, which includes *organizational design, investments in technology, and industry outreach*” and that the Federal Reserve intended to be “*part of the solutions* that will best serve the needs of different end users including banks, consumers, businesses, and governments.”¹⁵

We share Ms. Pianalto’s vision, as do many of our private industry competitors. However, we respectfully disagree that the vision should drive a Federal Reserve plan of action in which the Federal Reserve itself invests in technology so that it can be part of the solutions. History teaches us that private industry will achieve the vision faster, at a lower cost and with greater opportunity for future innovation than government. Therefore, we strongly discourage the Federal Reserve from developing an RTGS service, auxiliary services or a liquidity management tool, and rather encourage it to let private industry do what it does best – innovate and compete to meet market demand.

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¹³ There is, however, a concerning circularity in the Board playing the leading role in the process that resulted in the recommendation from the FPTF that the Federal Reserve develop a 24x7x365 settlement service and the Board then pointing to the recommendation as a justification for the potential actions described in the Request. Federal Reserve System, *Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments*, Request for Comment (Oct. 3, 2018), at 11.

¹⁴ Federal Reserve Bank of Chicago Payments Conference (Oct. 22, 2012).

¹⁵ *Id.* (emphasis added).

Again, Mastercard appreciates the opportunity to provide comments in response to the Request. If there are any questions regarding our comments, please do not hesitate to contact the undersigned at (914) 249-1582 or Tina.Woo@mastercard.com, or our counsel at Sidley Austin LLP in this matter, Joel D. Feinberg, at (202) 736-8473.

Sincerely,

A handwritten signature in black ink, appearing to read 'Tina Woo'.

Tina Woo
Senior Managing Counsel
Regulatory Affairs

cc: Joel D. Feinberg