



November 5, 2019

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

Regarding: Notice and Request for Comments – Federal Reserve Actions to Support Interbank Settlement of Faster Payments; Docket No. 1670

Dear Ms. Misback:

State Bank of Toulon, Toulon, Illinois appreciates the opportunity to provide input on the Federal Reserve Board's planned development of a 24x7x365 real-time gross settlement service, FedNow.

The Fed's decision ensures open access and fair treatment to all community banks regardless of size, charter type and location. The Fed has and must continue to play a critical role in the nation's payments system as it does today alongside, and in support of, similar services offered by the private sector. The Fed's decision prevents The Clearing House (TCH) which is owned by 25 of the largest banks from gaining a disturbing monopoly over real-time payments.

The Fed's decision will help reduce concentrations in financial services, increase competition, lower costs, foster innovation, employ necessary checks and balances, and create a critically important redundancy (so there is no single point of failure) in the payments system in times of economic stress.

This was a historic decision by the Fed which will benefit community banks, consumers, small businesses, the financial system, our economy and taxpayers for decades to come.

### **1. Timing for implementing the FedNow Service**

The Fed expects to be able to implement this new Service in 2023/24. This timeframe needs to be shortened, yet the Service needs to have many desirable features. A longer timeframe will result in community banks not being able to offer real-time payments to their customers, TCH's

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further competitive advantage because it has already implemented its own version of real-time payments and extend the Fed's cost recovery.

## **2. Interoperability (communications between payments systems (i.e., the FedNow Service and The Clearing House's (TCH's) Real-Time Payments Network (RTP))**

The Fed stated that interoperability will evolve over time but remains a "key objective." Interoperability is the only viable method to assure open, nondiscriminatory access to faster payments systems by customers of all financial institutions. This goal is dependent on the cooperation of TCH (and others) which is not assured. A reasonable balance must be struck between the pace of the Service's development and implementation and an inviting and feature-rich service.

Interoperability must be available at FedNow's launch!

## **3. Payments Directory**

A payments directory enables a payer to transfer funds to a payee (recipient) without knowing the details of the payee's account information by providing an alias or public identifier, such as an email address or a phone number. Other entities will likely be looking to insert themselves in the payment's directory and payments process (toll-takers) for their own benefit, but they must not prevail. The Fed is the trusted provider with its broad reach.

## **4. Fraud Prevention Services**

The Fed is an essential commander on the front-line of fraud preventions and an essential ally of community banks in their efforts to prevent fraud losses. The Fed should be a repository of information, a sharable data base, about fraudulent activity similar to the way OFAC and ChexSystems operates today. This service will benefit all financial institutions in their fraud mitigation efforts.

We support the Fed's efforts to facilitate the industry in and develop an information data base (with an appropriate hold harmless for good-faith contributors) to provide community banks with "robust" capabilities to defeat fraudulent activity and prevent fraud losses.

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## **5. Rules and Standards**

Incorporating a single set of rules and standards across real-time payment systems will not favor one provider over another, and it will promote interoperability which is required for ubiquity.

We support the Feds and the Faster Payments Council (FPC) for guidance in creating rules and standards for real-time payments similar to how NACHA fosters compatibility and integration for the Automated Clearing House. Specifically, the Fed should require that all FedNow participants have the ability to send and receive credits to all other participants. This requirement would prevent an organization from joining FedNow only in order to push credits to community financial institution endpoints without offering the reciprocal service.

## **6. The Fed's Role as Payments System Regulator**

The Fed is not plenary regulator of the payments system and this limitation will extend to real-time payments. However, the Fed regulates (either directly, indirectly, or as an influencer) every federally supervised depository institution which has access to the payments system.

We urge the Fed to continue to exercise the necessary influence, particularly over TCH's owners and their RTP Network, to protect the payments system through the Reserve Bank's provision of payment and settlement services to banks.

## **7. Core Processors and Other Service Providers**

Unlike the largest banks, community banks are reliant on the largest core processors to deliver their services in support of all of a banks' critical operations. Community banks are experiencing significant costs and delays with the largest core processors in implementing even simple requests for additional services and access to add-ons. A delay caused by the cores in allowing community banks to access the FedNow Service will put community banks at a significant competitive disadvantage.

We encourage the Fed to use its regulatory authority to ensure the core processors and other service providers do not disadvantage community banks in their access to real-time payments.

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**Conclusion**

We its necessary for the Fed to immediately make features available that allow FedNow, and our community bank, to effectively compete in the market place, the real-time gross settlement space! Additionally, we urge the Fed to continue to work with the industry through outreach and engage the U.S. Faster Payments Council as well as accredited standard bodies such as ISO and ANSI to continue faster payment advancement and help ensure the country's economy is served. We support whole heartedly the Fed's leadership in providing interoperability and nondiscriminatory access to faster payments for all.

State Bank of Toulon thanks you for the opportunity to comment and speak on its behalf.

Sincerely,

A handwritten signature in black ink, appearing to read 'D. Parrott', is written over the printed name and title.

Douglas E. Parrott  
President/CEO

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