



November 4, 2019

Via Electronic Submission

Ms. Ann E. Misback  
Secretary  
Board of Governors  
20<sup>th</sup> Street and Constitution Avenue, N.W.  
Washington, DC 20551

Re: Request for Comment: Federal Reserve Actions to Support Interbank Settlement of Faster Payments.  
Docket No. OP-1670

Dear Ms. Misback:

Bankers' Bank based in Madison, Wisconsin (the "Bank"), a correspondent bank supporting community banks in primarily four states—Wisconsin, Iowa, Illinois and Indiana—respectfully submits the following comments on the Request for Comment on Federal Reserve Actions to Support Interbank Settlement of Faster Payments. Since our beginning in 1981, our product diversification has enabled us to meet the ever-changing needs of the Bank and its respondent bank customers. Central to our expanding product mix and the diversification of payment options for community banks has been the role the Fed has played in allowing universal access to payment solutions. To such end we were pleased to see the announcement around the FedNow solution and believe that the Federal Reserve's continued initiatives to modernize the payments systems is essential to the long term success of US payments.

For all banks to have equitable access, security and safety, and adequate management of payment risk the entry of the Federal Reserve into this space with a new solution, FedNow, is welcome and bodes well for the future of payments in the US. Bankers' Bank supports and shares the goal of a modern, secure, and innovative payments marketplace, one that includes choice.

Bankers' Bank has spoken frequently on the benefits of having the Federal Reserve enter the market with a real-time payments solution. Entry into this space provides for more long term soundness of the US payments system. Beyond all of the functionality that the solution will provide, including facilitating the safe and reliable delivery of funds, we believe there are significant additional benefits to the Federal Reserve providing a real-time solution. Mitigating system payments risk. The US payment system has experienced crises in the past, as outlined so well by the Federal Reserve in the FedNow announcement document and by Esther George president and chief executive officer of the Federal Reserve Bank of Kansas City in her keynote at the Federal Reserve's recent Payments Symposium in Chicago. When it really counts, the only party that has the facility to

provide broad resiliency around liquidity in the US market is the Federal Reserve. We also believe that the Board identified well how the requirements of the Monetary Control Act are met providing a strong, reasonable and valid case for entry into this market.

Specific to this Request for Comment we have the following thoughts to share:

- **Settlement Account:** It is important to reconsider the use of a two-account structure. In a two-account structure, the separate account reduces the overall complexity of managing real-time transactions. They could be used in a modified manner, similar to a Zero Balance Account financial institutions are already familiar with, in managing corporate DDA's. With the right liquidity management tool this could be a cost effective method of handling real-time payments. This management tool would provide a method to ensure that overfunding of a second account does not occur while maintaining greater control over these transactions. This type of account also provides a method for ensuring that the value of received real-time transactions (which for smaller institutions may be greater at the outset than send) does not distort the overall balances within the Master account.

If a two-account structure is not used, we believe another option to reduce complexity would be to tie type codes to real-time transactions, enabling the sorting of entries in a way similar to how Merchant Category Codes provide for the meaningful segmentation of credit and debit card transactions. If properly implemented these codes could enable quick and easy identification of real-time activity in a Master account, simplifying reconciliation.

The role of correspondent banks, including bankers' banks is important in the management of liquidity and 24/7/365 funds availability for community banks. Providing access to correspondent banks, allowing them to build the real-time settlement services within cash management solutions, provides access to greater automation, monitoring, reporting and a more complete end of day solution for community banks.

- **Request for Payment:** The Bank believes that adding functionality for a Request for Payment to FedNow strikes a balance between the risks and complexity of a Debit Pull solution (which the Bank does not support) and the limitations inherent in allowing only the crediting party to initiate a transaction. While the sender maintains control over initiating a payment, some reduction in exception processing (wrong receiving party) and additional uses cases for a faster-payments solution could result from allowing such requests.

It is not clear that Request for Payment functionality is critical at rollout of FedNow, and may implement added complexity that could delay implementation or inhibit adoption. While allowing such requests in the future seems the right direction, the Bank feels it is not part of a Minimum Viable Product for FedNow at rollout.

- **Directory Service:** The Bank believes that the Federal Reserve needs to play a role in directory solutions. This is critical as access to many private-sector directories may not be available on a broad and equitable basis for community banks, putting them at a disadvantage in providing access to the information surrounding their retail and commercial customers. The ultimate control of a retail or commercial customers' directory entries should be with that customer. Not all private-sector directories provide this, and we believe a Federal Reserve solution would include sufficient user controls to direct the financial institution end point of their transactions. It is important that a user not only gets a transaction to the right person but to the *user-preferred* financial institution.
- **Fraud prevention services:** The Bank believes that there is a great opportunity with the addition of the FedNow service to provide information to financial institutions in their fight against fraud, providing greater safety within the payments ecosystem. Advances in technology around providing descriptive and predictive data analytics solutions is rapidly growing. With FedNow in the initial stages of development, without legacy constraints, there exists a great opportunity to leverage newer technologies, integrating them within the system from the ground up.

Bankers' Bank encourages the Federal Reserve to move swiftly along the path to a FedNow solution rollout, with broad and inclusive communications with all stakeholders. In order to plan and develop strategies around payments, operations and procedural decisions must be made, requirements must be set and investments must be made. There are enhancements to systems and procedures that will have to be determined, developed, tested and put into production. This takes time and uncertainty is a roadblock.

We thank the Fed and appreciate the opportunity to provide comment on these important topics. If you have any questions regarding our comments, please do not hesitate to call me at (608) 829-5784.

Sincerely,



Matthew J. Sitkowski

Executive Vice President and Chief Financial Officer

