



RETAIL INDUSTRY LEADERS ASSOCIATION

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November 6, 2019

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—1670, Federal Reserve Actions to Support Interbank Settlement of Faster Payments

On behalf of the Retail Industry Leaders Association (RILA), we appreciate the opportunity to provide comments to the Board of Governors of the Federal Reserve System on the recent decision to develop a new 24x7x365 real time gross settlement service to support faster payments in the United States. The engagement by the Federal Reserve to establish the FedNow infrastructure will help achieve ubiquitous, safe, and efficient faster payments across the ecosystem and, more importantly, benefit all Americans.

RILA is the U.S. trade association for leading retailers. We convene decision-makers, advocate for the industry, and promote operational excellence and innovation. Our aim is to elevate a dynamic industry by transforming the environment in which retailers operate. RILA members include more than 200 retailers, product manufacturers, and service suppliers, which together account for more than \$1.5 trillion in annual sales, millions of American jobs, and more than 100,000 stores, manufacturing facilities, and distribution centers domestically and abroad.

During the past few years, RILA has been a collaborative partner with the Federal Reserve by working with the Secure and Faster Payment Task Forces (SPTF and FPTF). These efforts brought industries from across the payment ecosystem together to discuss a wide range of policy issues, with the overall goal of updating and improving the nation's payment infrastructure. RILA has also recently joined the Faster Payments Council (FPC) and envisions the FPC as an important ally to the Federal Reserve as the FedNow system is developed. The Federal Reserve should view the FPC as an organization with a wealth of knowledge from all pillars in the payments community and the potential to provide expertise counsel as the FedNow system is created and then enhanced.

Throughout this process and moving forward, it will be vital for the Federal Reserve to engage with all stakeholders. Ensuring input and representation from all participants will help achieve ubiquity and interoperability across the entire ecosystem and will provide the greatest public benefit. Outlined below, RILA addresses several of the comment provisions from the Federal Registrar Notice (FRN).

PART ONE

II. Summary of Comments

As RILA has mentioned in our previous comment letters to the Federal Reserve and to the United States Congress, FedNow will not only have a positive impact on the merchant community, but it will also benefit the American consumer. As retailers, it is not uncommon to hear from our customers about the length of time it takes for debit transactions to be completed. This is especially true for Americans who are underbanked, living on fixed incomes, and facing budget constraints. Establishing a real time payment system in the United States would benefit all American consumers by providing more clarity and control over their finances.

Technological advances have altered the way people communicate, conduct commerce, and access information. Core industries—touching multiple pillars of our nation's economy—have adapted and evolved to confront this technological revolution, but the payments industry has been reluctant to keep pace with the changes in technology. Over the past several decades, RILA has seen competition and innovation in the payments ecosystem stifled by a small group of legacy players. This is one of the key reasons why RILA supports the Federal Reserve's involvement. The Federal Reserve's decision to move forward on FedNow would not only complement the current services they provide in the payments arena but also—and more importantly—ensure there is competition in the market that provides a choice for all industries.

As the Federal Reserve has highlighted in their FRN, they received more than 405 comment letters from a wide variety of stakeholders from the U.S. payment system, with the overwhelming majority in support of engagement by the Federal Reserve. One of the important anecdotes from these letters was the alignment of small financial institutions, credit unions, and the entire merchant community on supporting the Federal Reserve entering the market. This type of baseline agreement from these industries on such an important policy proposal was extremely significant and rare. RILA commends the Federal Reserve for recognizing the importance of engagement from multiple participants in the ecosystem and how moving forward will benefit the American public.



III. Assessment of the FedNow Service

Intense competition is the hallmark of America's core retail industry. Competition drives innovation and brings consumers both lower prices and new products and services. However, the absence of competition elsewhere in the retail ecosystem stifles the benefits that have historically resulted from this intense competition. This same core principle will hold true for having two different options operating alongside each other when it comes to faster payments in the U.S.

Around the globe, advanced and emerging economies are partnering with the payments industry and central banks to bring faster payments to the market and, subsequently, benefitting their citizens. The goal of establishing faster payments in the U.S. economy cannot be achieved solely by a private sector solution driven by a handful of legacy players from the financial services industry. It would be nearly impossible to create the infrastructure necessary to provide equitable access to enough banks—particularly small financial institutions—to achieve ubiquity. This effort can only succeed in collaboration with the Federal Reserve as an operator.

RILA members have expressed several serious concerns about only having a single provider of faster payments. These issues center around cost, efficiency, security, resiliency, and redundancy. Each one of these issues could result in a lack of adoption across the ecosystem, inequitable cost structures borne by specific industries, a fragmentation of the market, and a failure to address the necessary security controls to help build the trust of the American people.

The decision by the Federal Reserve to establish FedNow focused on several core principles—one of the most important of which is the long-term benefit to the public and the economy as a whole. RILA believes FedNow will achieve ubiquitous, nationwide access to safe and efficient faster payments under the current timeline. Achieving this goal will not only advance the U.S. payment ecosystem in a positive direction but will allow for further innovation and competition in a market which was previously void of it.

As the Federal Reserve moves forward on establishing the infrastructure for FedNow, it will also be important to outline the cost recovery methods the Federal Reserve will institute under the Monetary Control Act (MCA). RILA firmly believes this structure will be fair and equitable across all stakeholders in the payment ecosystem—something RILA would not be comfortable acknowledging if there was a sole entity operating faster payments on behalf of large financial institutions. The Federal Reserve has a proven history of achieving their goals on cost recovery on other services they provide, and it will be important to accomplish this objective over the "long-run" period.



IV. Assessment of Expanding Operating Hours for the Fedwire Funds Service and the National Settlement Service to Support Liquidity Management for Faster Payments and for Other Purposes

In RILA's initial comment letter last year, we stated these issues rested more with financial institutions, but after further internal discussions, RILA now encourages the Federal Reserve to consider expanding the operating hours for the Fedwire Funds Service and the National Settlement Service (NSS). Expanding these hours has the potential to help retail payments services by settling certain faster payments and traditional card services. As the Federal Reserve solicits feedback from specific industries, RILA is prepared to provide the perspective from the merchant community on expanding these services.

PART TWO

V. FedNow Service Description

The Federal Reserve fully understands the desire by a wide range of industry participants to launching the FedNow Service earlier than the 2023 or 2024 timeline contained in the Notice. This pressure has also been elevated by certain legislative proposals from the United States Congress to expedite the process under a shortened timeline. RILA strongly encourages the Federal Reserve to meet their current goal of deployment for FedNow and, if possible, implement at an earlier date. While expediency should be supported, it cannot compromise the objective of achieving ubiquitous, safe, and efficient faster payments across the ecosystem. Interoperability will be a key component at this stage and will require key parties working together to find a timely solution. It is possible the Federal Reserve might adopt an approach of developing a minimally viable product while also publishing a product enhancement roadmap to adding additional features. Provided the minimally viable version offers the necessary functionality and security features, this approach might have merit.

Prior to the introduction of the FedNow Service, the Federal Reserve intends to provide the pricing structure in order to begin the long-run cost recovery period. RILA recommends the Federal Reserve view the cost recovery over a long arc and ensure the fee structure is based on market forces. The broader merchant community has been burdened by certain fees that are completely unrelated to the costs associated with facilitating payments. For example, while covered financial institutions report that costs associated with the authorization, clearance, and settlement of debit transactions are less than \$0.05/transaction (and such costs have come down more than 50% since 2009), these financial institutions receive a fee of approximately \$0.25/transaction. RILA looks forward to working with the Federal Reserve to ensure the fee structure is equitable for all parties—particularly for end-users within the payment ecosystem. RILA expects the FedNow



Service to take time to mature, but as ubiquity and interoperability are achieved by market participants, the cost recovery methods and targets should be met.

As the directory service discussion moves forward with key stakeholders and the Federal Reserve, RILA would highlight one of the recommendations from the FPTF in this area. The FPTF called for "identification and development of an appropriate design for directory services that allows payers to send payments across faster payments solutions by using a non-Personally Identifiable Information (PII) identifier (alias)." Their recommendations further highlighted that "the development of a model design for directory services is important to achieving the core ecosystem goal of interoperability" and added that a "federated directory model (where a set of directories are connected such that a search of multiple directories can be undertaken to retrieve the information necessary to route the payment) may be an effective way to achieve interoperability between faster payments solutions in a timely manner." In reviewing the potential possibilities laid out in the FRN, RILA would oppose a structure that connected financial institutions to existing private sector directories. RILA could be supportive of allowing Reserve Banks to establish a centralized link with private directories as well as allowing Reserve Banks to build their own directory as part of the FedNow Service. RILA looks forward to future engagement with other stakeholders and the Federal Reserve on this topic.

Fraud prevention is another key component, requiring cross industry expertise and collaboration. The American public will need to have trust in this new service and be confident that all participants have developed robust fraud monitoring tools and security measures to protect our nation's payment infrastructure.

It would be RILA's recommendation the FedNow Services do not require the sharing of sensitive credentials. If it does become necessary, all account data should be tokenized, leveraging an open source tokenization protocol developed by an accredited standards organization, such as an ISO. It is also important to apply strong End-User enrollment and authentication controls across all delivery channels, and it would be essential to vary the authentication procedure based on the risk-weighting of any given transaction. It is vital the FedNow Service have robust security controls to build public faith in the new system and to help further adoption across all industries.

As the infrastructure to the FedNow Service is discussed and created, RILA looks forward to providing more insight on these and other issues.

VI. Competitive Impact Analysis

RILA strongly believes the FedNow Service would offer an important public benefit. As discussed in previous sections, the FedNow infrastructure will help achieve ubiquitous, safe, and efficient faster payments across the ecosystem and, more importantly, benefit all Americans. It will also



allow for competition and innovation to flourish throughout the payment industry, which has the potential to lower costs for all industry participants.

One of the key areas of discussion that has arisen in the initial competitive impact analysis is how the FedNow Service and how a private sector RTGS provider would differ in the types of accounts they would operate to store and maintain funds. The FedNow Service would allow participants to utilize master accounts at the Reserve Banks, and the private sector RTGS provider would use a separate non-interest-bearing joint account that each participant will need to prefund. There are issues on how master accounts can accrue interest and count towards reserve requirements, while the joint accounts for the private sector providers do not have this option.

One potential remedy to this situation—as previously highlighted—would be to have the Federal Reserve expand Fedwire Funds Service or NSS hours. These expanded services could ameliorate any adverse effect on issues between the utilization of master account and joint accounts—specifically addressing interest bearing and liquidity concerns.

RILA looks forward to reviewing the final Federal Reserve competitive impact analysis of the FedNow Service and welcomes the opportunity to provide further comments on these core issues.

Once again, RILA commends the Federal Reserve's decision to establish FedNow, which will ensure scale, reach, and competition are achieved for faster payments in the United States. RILA is prepared to work as a collaborative partner to achieve this ambitious undertaking with the Federal Reserve and key stakeholders in the payment ecosystem. Failure to move forward on this critical initiative will leave our nation further behind in the payments arena, potentially harm economic growth, and—above all—limit the financial choices of the American public.

Sincerely,

A handwritten signature in blue ink, appearing to read "Austen Jensen".

Austen Jensen
Senior Vice President, Government Affairs

