



Corporate Federal Credit Union

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November 6, 2019

Board of Governors of the Federal Reserve System  
Attn: Ms. Ann E. Misback  
20<sup>th</sup> St. and Constitution Avenue N.W.  
Washington, D.C. 20551

**RE: Docket No. OP-1670; Federal Reserve Actions to Support Interbank Settlement of Faster Payments**

Board of Governors:

Alloya Corporate Federal Credit Union (“Alloya”) appreciates the opportunity to respond to the Board of Governors of the Federal Reserve System request for input regarding their decision that the Federal Reserve Banks (“Reserve Banks”) develop a new interbank 24x7x365 real-time gross settlement service with integrated clearing functionality to support faster payments in the United States. As a large correspondent representing 1,400 credit unions, Alloya believes the Federal Reserve Board (“FRB”) facilitation role and guaranteed settlement among counterparties are essential to a safe, ubiquitous, faster payments environment in the United States.

Development of a core infrastructure to provide a 24x7x365 Real Time Gross Settlement (“RTGS”) arrangement through the Reserve Banks as proposed through the FedNow Service, would allow for equitable access, maintain competitive fairness, and instill confidence in all participants from individual consumers through vendors/merchants, fintechs, financial institutions (“FIs”), and data processors (“DPs”). As previously noted by the FRB, there has never been a private-sector provider of payment services that has had success in connecting to the many mid- to small-sized institutions to achieve a nationwide reach. The Reserve Banks are uniquely positioned to connect RTGS services with cash management and liquidity solutions. They already provide payment services to nearly 11,000 FIs of many different sizes, serving them directly or through an aggregating correspondent FI. In addition, through FedNow Services, the Reserve Banks can offer RTGS in a standardized manner allowing for interoperability among disparate core systems which will be key to the successful adoption of FedNow Services nationwide.

Alloya appreciates the opportunity provided to meet with representatives from the Federal Reserve to share our thoughts and input on the FedNow Service. On behalf of itself and the 1,400 member-credit unions it provides aggregation and settlement services to, many of which use the Reserve Bank Systems’, Alloya submits the following comments for consideration regarding the proposed FedNow Service features. Alloya looks forward to an on-going dialog as it works with you to create and evolve this solution.

**Liquidity Services**

Alloya agrees with the FRB’s plans to continue to provide intraday credit for FedNow transactions to support the smooth functioning of payments through the service. Alloya also agrees that account balance management would become more complex in a 24x7x365 environment where payments settle continuously in master accounts. While the transactional amounts associated with FedNow may be smaller due to a greater retail focus, monitoring and managing internal account balances for intraday liquidity in real time could be challenging. Therefore, Alloya endorses the Federal Reserve developing tools to assist with monitoring and managing the intraday and end of day account balances. The tool

should be designed to track settlement activity in real time and provide a variety of means to obtain liquidity when needed, even during non-traditional business hours.

### **Core Processing**

Realtime Payment activity 24x7x365 will stress and could cause issues for smaller credit unions, many of which are only open for business during short windows of operation and depend heavily on batch processing for payment processing. Seven-day accounting will add to the burden of staff and systems. Currently, Alloya is not familiar with any credit union DP that offers a real time 24x7x365 core processing system. Most credit union DPs that claim to provide real-time processing provide teller platforms which post in real time to the core, but the payment processing systems continue to process in batch and achieve a “real time” look and feel through the use of memo posting to display available balance to members. The actual direct posting to the Demand Deposit Account is handled in batch uploads followed by reconciliation of the two systems. The Reserve Banks will need to determine a specific cutoff time for this type of processing.

### **Directory Service**

Due to the individual account transaction visibility that will be required with a 24x7x365 day RTGS system and the finality of the payment postings upon completion, Alloya believes the Directory feature will be critical to the successful implementation of FedNow. Directories are an important driver for service adoption since both individuals and businesses value making payments based on public identifiers to ensure accurate payment processing while reducing fraud, processing errors, and omissions. Alloya believes that the Federal Reserve’s national reach, industry status, and rule-making abilities offer the necessary profile for adaptation by all participants.

### **Fraud prevention**

Real-time gross settlement makes it practically impossible to retrieve payment errors. Therefore, a Directory, and other risk mitigating tools should be considered for inclusion in the initial solution. BSA, OFAC, and other risks must be addressed through Fraud Preventive Services such as a database of known fraudulent accounts, automated fraud detection tools to identify unusual payment activity, and specific transactional limits. The initially conceived \$25,000 limit on FedNow transactions has merit while processes and controls are established by FI’s in the start-up phase. Alloya encourages the FRB to plan on increasing the transaction limit to allow for other use cases in addition to small value person-to-person consumer payments. Furthermore, due to the finality of the transaction once it has been posted at the FI’s Reserve Bank Master Account, Alloya believes that current disclosures and funds availability rules need to be revised to ensure funds availability to the end users is required.

### **Formats, ISO 20022, and APIs**

Alloya appreciates that the FedNow Service would incorporate clearing functionality with messages containing information required to complete end-to-end payments, such as account information for the sender and receiver, in addition to interbank settlement information. The addition of supplemental descriptive information such as remittance or invoice information would be welcome and Alloya believes ISO 20022 would be an appropriate standard format. However, since ISO 20022 specifications are not anticipated until June 2020, Alloya believes this timing should be considered when determining a realistic start date. All FIs will need time to develop APIs allowing the ISO 20022 format to automatically flow through their internal payment, accounting, and core systems. Alloya encourages the FRB to provide

FedNow transactional file formatting to participants and DPs as soon as possible to allow them to have adequate APIs in place prior to the rollout of the FedNow Services.

To achieve the ubiquity and interoperability envisioned, use of a standard data set for FedNow would increase use across multiple FI's. Similar standards exist for card and ATM processing, using ISO 8583 in transactions going between different private card and ATM networks, making the transaction seamless to the user. The ISO 20022 standard has robust capabilities for including other metadata for use in commercial applications and addendum details. Therefore, Alloya suggests the establishment of a set of required minimum data elements to facilitate transaction traffic between public and private networks.

The nature of FedNow Services with individual real time payments will increase the demand by consumers for the visibility and reporting of the transactions in real time. Data processors, core systems, home banking applications, etc. will also need to provide origination, transmission, receipt, and reporting of activity in real time. Standardization of formats and APIs for connectivity and smooth transitions across multiple payment and data information rails will be key to success.

### **Interoperability between FedNow, The Clearing House, and other RTGS Payment Systems**

Alloya believes that all FIs benefit from the interoperability of RTGS payment systems, including FedNow, The Clearing House (TCH), and Private Payment Services ("PPSs"). Interoperability would be important, at least from a receipt standpoint where TCH or other PPSs could access all end points through the FedNow solution. The absence of interoperability creates closed loop systems where RTGS is unable to be achieved for all users, thus creating a disadvantage for those consumers/merchants using closed systems. Alloya supports RTGS being an open solution, which is available to all users. The encouragement of the FRB for interoperability would help accelerate the adoption of RTGS by all entities, assist in mitigating risk through the sharing of information, and improve the capabilities of all RTGS systems.

### **Separate FedNow Account, 7-Day Accounting and Correspondent Services**

Pending further discussions, Alloya believes a separate account from the Master Fed Account may provide improved visibility in managing 24x7x365 activity and ensure adequate balance monitoring for reconciliation purposes. Alloya proposes that the FedNow Account contain the individual transaction posting in a real-time manner and periodically debit or credit the Master Account while not allowing processing that would cause the account to overdraft. Alloya has many years of experience managing aggregation and it feels comfortable that, given the correct detailed reporting into a separate FedNow account, the balances and activity could be more easily managed, reconciled and maintained. Additionally, Alloya supports the balances in the FedNow Accounts earning interest and being available to meet reserve requirements in the Reserve Bank Master Account.

In addition, Alloya believes that seven-day accounting will be necessary for the accurate management and accounting of these transactions. Seven-day accounting will require Alloya, along with most FI's, to add staff for monitoring and maintaining these extended operational hours. The option to use automated tools to monitor and manage a 24x7x365 process would be a reasonable cost to the largest providers, but could be an impediment to smaller FI's. As an aggregator and provider of payment services for our member credit unions, Alloya believes that there may be a role for it to assist our smaller asset size members by providing additional staffing hours required to accommodate the seven-day accounting and FedNow transactional activity.



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Based on the various RTGS payment rail options available and the disparities in the size and sophistication of potential participants, Alloya endorses FedNow supporting FIs using correspondent FIs. For example, some Alloya member credit unions use it as their correspondent FI. To facilitate correspondent relationships in the use of FedNow, it would need to offer the option of segregating each FI's activity, the ability to monitor their balances, and provide visibility to their transactions and settlement in the correspondent's FedNow Account.

### Summary

In summary, Alloya is very supportive of the proposed FedNow Service. As discussed during our meeting with representatives from the Federal Reserve, Alloya is very interested in assisting in a pilot program on behalf of ourselves and the 1,400 member-credit unions who currently depend on Alloya for various financial and payment services. In recapping and prioritizing the proposed features for FedNow's initial launch, Alloya advocates for the following features, in order of importance to advance an ubiquitous, safe, and efficient faster payment services: a Directory, a Method for Requesting Payments, Liquidity Monitoring and Management Tools, Fraud Mitigation Tools including Consumer Training, RTGS Reporting, and Detailed Transaction Data Reporting.

Thank you for the opportunity to provide our comments on the proposed FedNow Service and its implementation. Alloya stands ready to do its part to bring faster payment options to all consumers in a fair and equitable manner.

Sincerely,

A handwritten signature in black ink that reads 'Todd M. Adams'.

Todd M. Adams  
Chief Executive Officer