CATALYST
Corporate Federal Credit Union

November 7, 2019

Ms. Ann Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue, N.W.
Washington, DC 20551

RE: Comments on Federal Reserve Actions to Support Settlement of Faster Payments

Dear Ms. Misback,

Catalyst Corporate Federal Credit Union is submitting comment on the Request for Comment from the Federal Reserve Board of Governors on the Federal Reserve's Actions to Support Interbank Settlement of Faster Payments (OP-1670). Catalyst Corporate is a wholesale cooperative financial institution that serves approximately 1,400 member and client credit unions across the United States. Catalyst Corporate provides its members with core financial services and back office support, including payment solutions – such as checks, ACH and wires – liquidity services, investment options and balance sheet management assistance.

Catalyst Corporate appreciates the opportunity to comment on the Federal Reserve Actions to Support Settlement of Faster Payments and commends the Federal Reserve for taking this step. This organization is supportive of the Federal Reserve's decision to move forward with the development of real-time gross settlement (RTGS) and believes this initiative will benefit the industry in achieving ubiquity around faster payments.

Catalyst Corporate considers the role of the Federal Reserve critical in bringing about wide scale use and acceptance of faster payments. We also trust RTGS will foster fairness and equity across all financial institutions in serving their customers and members.

Responses to the questions follow.

Respectfully submitted,

Brad Ganey
Senior Vice President, Chief Operating Officer

COMMENTS

Consistent with our December 14, 2018 response, Catalyst Corporate reaffirms its support for the Federal Reserve's decision to move forward in developing a new round-the-clock real-time payment and settlement service. We believe that FedNow will be a solution that encourages ubiquity and is consistent with the role currently played by the Federal Reserve.

We believe the development of FedNow is an important step toward moving the industry forward with faster payments and the Federal Reserve is best equipped to safely reach a broad range of financial institutions and their customers.

Based on information provided about the FedNow service, Catalyst Corporate has identified several topics for comment. They are as follows:

Fraud Mitigation Tools

Catalyst Corporate is supportive of solutions from the Federal Reserve that will provide risk mitigation and address fraud for faster payments. Catalyst Corporate recommends that the Federal Reserve work collaboratively with the payments industry on standards and best practices for fraud prevention. This model has been effective in implementing standards in other payment rails, such as check imaging, where interoperability of image-survivable check security features were developed in collaboration with all the primary solutions providers.

Catalyst Corporate encourages the Federal Reserve to work with the U.S. Faster Payments Council in determining standards and best practices. In particular, the Council's Fraud Information Sharing Workgroup represents an ideal forum for Federal Reserve participation and industry collaboration.

Transaction Limit

Catalyst Corporate recommends that the transactional limit of $25,000 be raised, if not initially, then soon after FedNow launches. Each financial institution should have the ability to set transactional limits for its customers. As part of an institution's risk review and "know your customer" analysis, the financial institution is best positioned to understand the appropriate dollar limit to set for its customer.

By 2023 or 2024, when the FedNow service is scheduled to be available, it is likely that other faster payment solutions will have the ability to transact payments in amounts significantly higher than this threshold. As an example, effective March 20, 2020, NACHA rules will raise the Same Day ACH dollar limit from $25,000 to $100,000.

We believe the FedNow solution should have a transactional limit that is comparable to the other faster payment solutions in the market.

Directory Database

Considerable progress has been made on faster payments directory models. The Federal Reserve Payments Improvement Group completed a significant amount of work on potential directory models, which has now carried over to the U.S. Faster Payments Council Directory Model Workgroup.

Catalyst Corporate recommends the Federal Reserve participate in this collaborative effort and move forward with a model consistent with this group's recommendations.

Ancillary Features

It is our understanding that the Federal Reserve is considering the inclusion of several auxiliary services in FedNow. Imperative ancillary features for FedNow should include the ability for request for payment, request for refund and validation prior to the transaction being finalized. Catalyst Corporate believes these auxiliary services will be beneficial and will add value to the FedNow service.

Regulatory Changes

Catalyst Corporate recommends the Federal Reserve take a proactive role in determining regulatory changes necessary as faster payments and technological advances continue to evolve.

An example of regulatory changes would be clarifications on requirements for Office of Foreign Assets Control (OFAC) screening of item-level faster payment transactions. Will there be differences in OFAC requirements for item-level faster payment transactions versus current requirements for wire transactions? In any event, OFAC screening should be the same for FedNow transactions as is required for wire transfers.

We recommend that a regulatory review begin as quickly as possible. It will be important for regulatory changes to keep pace with the technological advancements being made for faster payments.

Expanded Hours for FedWire and National Settlement Service

Catalyst Corporate is supportive of the consideration to expand FedWire and National Settlement Service deadlines. Expanding these hours will assist financial institutions in facilitating the back office real-time settlement for transactions that can occur 24x7x365. There will be several challenges for financial institutions to achieve readiness for this change. Among those challenges are operational

resources to support 24x7x365, management of liquidity and balances in the FRB Master Account, and education of customers, particularly with regard to immediate transaction finality.

Adjustments will be needed to back office operations and systems to account for the expanded hours. We encourage the Federal Reserve to announce changes as quickly as possible. We also recommend a significant lead-time before implementation in order to provide financial institutions and payments processors adequate time to prepare for the changes.

Ubiquity and Partnering with Aggregators

Catalyst Corporate is supportive of the decision to move forward with FedNow as a way to help drive the overall goal of ubiquity. The Federal Reserve's operator role in other payments systems, such as checks, ACH and wires, has led to broad access for financial institutions across the country. We expect FedNow to drive similar wide-scale access over the coming years.

We believe aggregators will continue to play a significant role in bringing broad access to faster payments. Aggregators typically serve a significant number of small and mid-sized financial institutions. Similar to other existing payments systems, we believe broader adoption and access can be achieved by the Federal Reserve working in partnership with major aggregators.

Conclusion

Catalyst Corporate appreciates the opportunity to respond to OP-1670. We believe this is a positive step in the evolution of payments, and we look forward to working with the Federal Reserve on additional initiatives to modernize the payments system.