



November 7, 2019

Ann E. Misback, Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, NW, Washington, DC 20551

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

Dear Secretary Ann E. Misback:

The Association for Financial Professionals (AFP) appreciates the opportunity to respond to the request for comment issued by the Board of Governors of the Federal Reserve System regarding the development of a new 24/7/365 Real-Time Gross Settlement (RTGS) system, called the FedNow Service, to support faster payments in the United States (the "Request").

AFP is a professional society with 16,000 members and is committed to advancing the success of treasury and finance professionals and their organizations. AFP established and administers the Certified Treasury Professional (CTP) and Certified Corporate FP&A Professional credentials, which set standards of excellence in treasury and finance. Each year, AFP hosts the largest networking conference worldwide for over 7,000 financial professionals.

AFP actively supports the ongoing enhancements of the U.S. payments systems by advocating for increased security and efficiency of payment transactions, as well as lower cost to the corporate end-user. In particular, AFP has been an active member of the Faster Payments Task Force (FPTF) and is a Founding Member of the Faster Payments Council (FPC), where our CEO Jim Kaitz is a board member.

AFP strongly supports the decision by the Federal Reserve to develop a Real-Time Gross Settlement (RTGS) system, called FedNow. Corporate end-users need to have access to a variety of efficient payment options to address payment needs in varying circumstances. A real-time payments system that operates 24/7/365 is a welcome addition to the payment methods currently offered in the market space, as it can facilitate a number of efficiencies for the corporate end-user.

However, the challenges for corporate end-users to make the necessary changes to legacy payments infrastructures in order to access real-time payments systems should not be underestimated. Therefore, a new real-time payments system should be interoperable with other real-time systems in order to avoid unnecessary corporate infrastructural changes. Also, a new real-time payment system needs to be optional with no mandatory requirement for adoption. Instead, adoption needs to occur organically based on economic and market factors.

For adoption of a real-time payments system to be a viable option for corporate end-users, the following recommendations need to be considered:

- **Business Case(s)** – Adopting a faster payments system must make economic sense.

Adding a new payment method and changing internal payments infrastructures must create enough efficiencies and/or cost savings to make strategic and economic sense and have an acceptable return on investment (ROI). Components of a business case include:

- **Use Cases**

It is unlikely that a corporate end-user will look to move all payments to a new system but instead target specific payments where speed would be most beneficial. Use cases need to be specified where faster and real-time payments can add enough value to build a business case.

- Example of use cases include, but are not limited to:
  - Substitute for wires
  - Last minute bill payments
  - Payroll
    - Emergency
    - Gig worker
    - 401K Instruments
    - HSA/FSA funding
  - Payments on last day of discount availability
  - Missed tax payments
  - C2B and B2C payments (utilities, telecom, insurance, etc.)
  - Quicker settlement of merchant acquiring proceeds.
- Many B2B use cases are dependent on the dollar limit per transaction.
  - A dollar limit of \$25,000 per transaction is not sufficient and would need to be raised considerably to facilitate adoption of faster payments.

- **Adoption Requirements**

Adopting a new payments infrastructure requires investments of time and money. The easier the adoption and/or transition from existing payments infrastructure, the more likely a corporation is to be able to accommodate necessary changes. Factors that can facilitate easier corporate adoption include:

- Minimal internal infrastructure investments and procedures
  - ERP and Treasury Management Systems need to support faster and real-time payments
  - Technical solutions that mitigate the need for 24/7/365 staffing to accommodate incoming payment transactions outside of normal business hours
- Sustainability – a long lasting solution
  - Infrastructure changes required by faster and real-time payment systems must be sustainable and not prone to constant future changes.
  - There needs to be room for scalability to support increasing transaction volumes, values and additional use cases.
  - As technology progresses a faster/real-time payments system needs to be able to adjust to new technical developments.

- **Cost/Investment**

The use of faster and real-time payments must be financially viable. If the financial burden is greater than the benefits, then there is no ROI and adoption will likely not happen.

- Investments in new internal payments infrastructure required to facilitate faster and real-time payments need to be manageable.
- Cost per transaction needs to be competitive with other payments methods.

- **Remittance Information Requirements**

To facilitate B2B transactions efficiently, a faster/real-time payments system needs to have remittance information capabilities:

- The size capacity for remittance information needs to be extensive to accommodate payments for multiple invoices with line item detail.

- The remittance information needs to follow the payment rather than require another vehicle such as email or web portal to retrieve the information.
  - The remittance information needs to be in a standardized format to potentially facilitate straight-through-processing (STP).
- **Security and Safety** – Faster payments must be protected from payments fraud.

A new payments system must include:

- **Account Validation**
    - There must be certainty that payments go to the correct beneficiary.
  - **Identification and Authentication**
    - There must be a requirement that payments be initiated only with the consent of the payer. Multifactor authentication is preferable.
  - **Payment Finality**
    - There needs to be a timeframe after which the payment is irrevocable, but also a process for disputed payments that are sent to an erroneous or fraudulent payee.
  - **Fraud Information Sharing**
    - There should be a requirement of a tool that facilitates sharing of payments fraud information among providers, operators and regulators to help mitigate fraud and evolving threats.
  - **Protection of Sensitive Data**
    - Sensitive financial data such as account numbers need to be protected by secure directories and/or tokenization from exposure.
    - Data needs to be encrypted while in transit.
- **Inclusiveness** – Accessibility of faster payments must reach all business end-users.

The faster/real-time payment system should have certain key features that enable any participant to initiate and/or receive payments to/from any other participant including:

- **Interoperability**
    - Multiple faster/real-time payments systems need to be able to communicate with each other in order to facilitate payments to/from users of different systems.
  - **Use of a common standard such as ISO 20022**
    - Conversion of corporate legacy formats into ISO 20022 needs to be facilitated by financial institutions and/or other providers.
  - **Cross-border functionality**
    - If possible, a new payment system should facilitate transactions to and from other countries with the same efficiency and speed as for domestic payments.

In addition, even if the above business case, security and safety, and inclusiveness requirements for faster and real-time payments are addressed, corporate end-users also need to understand exactly what these kinds of payments and systems mean, what impact they will have and how they can benefit corporate use.

- **Education** – Corporate practitioners need access to information on faster payments developments in the U.S.
  - The payments industry, including financial institutions and vendors, needs to provide education to their corporate clients on faster and real-time payments capabilities, explain the benefits and costs to help bring a greater understanding of the applicability to corporate payments needs.
  - There needs to be extensive education of what solutions and platforms are available for corporates to use.
  - The fee structure also needs to be communicated for greater corporate understanding of the impact of faster and real-time payments.
  - Additional education regarding operational configuration, as well as budgeting for adoption, are needed.

## Summary

Faster and real-time payments for corporates will require a considerable effort. For corporate adoption and implementation of faster payments infrastructures, there must be enough incentive and functionality that clearly surpasses legacy systems. The capabilities of the faster payment systems to handle large enough dollar amounts, along with extended remittance information, will be key—particularly for corporate B2B transactions that typically have multiple invoices for each payment. Current dollar limitations and limited remittance capabilities will hamper the usability of these systems and act as barriers for adoption. In addition, a new faster payments system must also be cost-efficient, as few organizations will trade higher cost for speed, except in emergency situations. A new faster payment system that can accommodate these requirements and provide solid business cases for corporates will have a much greater chance of a broad adoption in the B2B space.

Thank you for the opportunity to comment on this Request.

Sincerely,

A handwritten signature in black ink, appearing to read 'Magnus Carlsson', is written over a horizontal line.

Magnus Carlsson  
Manager, Treasury & Payments  
Association for Financial Professionals