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Ann E. Misback, Secretary
Board of Governors of the
Federal Reserve System
20th Street & Constitution Ave., NW
Washington, DC 20551

VIA EMAIL: regs.comments@federalreserve.gov

RE: Docket No. OP – 1670
Federal Reserve Actions to Support Interbank Settlement of Faster Payments
RESPONSE TO REQUEST FOR COMMENTS

Dear Secretary Misback:

We write in response to the subject docket. We have already provided the Federal Reserve Bank (FRB) with much detail regarding how a faster payments system could work best for small/medium financial institutions (FI's), aggregators such as bankers banks, corporate credit unions, and other correspondents servicing the financial sector. Thus, this missive is not intended to be a redundant discussion of the proposed FedNOW offering. Our intention is to address a few of the over-arching concerns and themes that we have discussed with hundreds, if not thousands, of institutions.

The Bankers Bank (TBB) whole-heartedly applauds the Federal Reserve Bank's decision to offer the FedNOW service. It is a necessary step forward to provide continued trust, reliability, resilience, and fairness to a healthy competitive market. Furthermore, we do believe the liquidity management tools envisioned will be helpful and necessary to the market in our quest for ubiquity.

Our greatest concerns regarding the new service(s) are in five main areas:

- Liquidity and settlement
- Interest-bearing accounts
- Rules and standards
- Directory
- Fraud and other regulatory requirements

Today, bankers banks provide settlement and liquidity services to thousands of endpoints across the country. Client FI's often have all of their settlement occurring within their master accounts at a bankers bank. We manage the in- and out-flows in real-time, provide intra-

day liquidity, overnight facilities as needed, and invest overages in the upstream overnight markets. In a faster payments world, this relationship will become even more important to most of our clients as the real-time nature could be difficult for them to manage alone and most certainly would be difficult in a 24 x 7 world.

Our systems were built to handle real-time settlements, and we will have to enhance our current liquidity management software for round-the-clock monitoring as well as being able to leverage potential FRB liquidity tools for seamless transaction funding. Additionally, for the majority of these smaller institutions, we offer credit facilities to prevent their legitimate transactions from being stopped or slowed down.

In a Real-Time Gross Settlement (RTGS) environment we know settlement will blend into our liquidity role managing the cash flow for the FI's. We want to confirm that the new service will not impede the ability of the FRB to bifurcate the posting transaction from the settlement side. This should work the same for both sending and receiving faster payment transactions. An example could be where an institution could have different providers for different use cases, such as P2P and B2C. The FI would want their bankers bank master/special account to receive/send settlement and may rely on a bankers bank product to originate the transaction. But there are cases where other third parties may originate transactions on a bank's behalf, and still need to settle in their bankers bank account. We would appreciate the opportunity to further elucidate the appropriate FRB representatives on this subject. If the transaction and settlement cannot be separated by this service, many structural problems can occur.

A last point on the settlement subject. The ACH platform allows multiple senders and receivers. Settlement for these items can independently settle at any FI of their choice; transactions can be sent to their same third party used for settlement or another such as a core processor. With the Fedwire service, this isn't as easy. While wires can be originated and received in a third parties account, any incoming wire transfers go to a receiver's ABA. The settlement stops at the receiving RT, and unlike ACH, cannot proceed to their bankers bank account. What can proceed is simply a notification to their bankers bank account with no settlement attached. This produces additional friction into the process and causes more cost and potential increase of credit risk.

We are in full support of maintaining interest on all static balances left in our master accounts at the FRB. Since we currently manage day and night liquidity for most of our clients, we pass through interest earned on their Excess Balance and Reserve Accounts. We ask the FRB to use the EBA model at a minimum for pass-through purposes on our respondent's interest earnings under our master account. We believe any private sector offering by another provider could choose to use the same method and not need to hold funds outside of the interest-earning FRB master accounts. Thus, we do not see this as a competitive issue between providers and should not sway the FRB from continuing to provide this service to FI's.

Rules and standards are a big gap in the faster payments ecosystem when they leave a closed loop provider. Any additional assistance the FRB can give the industry on this front will aid in providing smaller players participations and assist nascent product providers with a more stable environment. While it is our desire that the Faster Payments Council (FPC) will be a place all providers can come together for rules and standards, there is no assurance that this will occur at this time. The FRB's involvement in the FPC needs to occur as soon as possible and help develop tools to assist in our drive to interoperability.

Directory services is another one of the problems we all need to solve. If the FRB can provide a directory structure that we can all use, we believe it can foster more trust in the FedNOW service and allow greater availability to more participants and providers. This is an easy ask, but hard to do. Yet, if we build this new system on using current routing numbers and account numbers, we may be missing an opportunity to make these transactions more secure for future payments. The FRB is well-positioned to take the lead on this and eliminate the disagreement over who "owns" a customer's email address or phone number.

Lastly, any additional fraud monitoring and BSA/AML services that can be performed by the central bank as the clearinghouse for these transactions would be a huge add. Currently the industry is spending untold amounts of money duplicating efforts for a single payment on certain rails (g. wires), while not performing real-time monitoring on other payment transactions such as checks. This seems to be an opportunity to improve the experience in one place and share the cost of a better process.

In conclusion, we appreciate the efforts the FRB has made in fostering the conversation, thoughtfully analyzing the industry's faster payments needs, and the commitment that you have made to the nation. This is an important time for all of us in payments, and we need to get this as correct as possible. Please do not hesitate to reach out if we may assist with additional comments or further explanation.

Respectfully submitted,



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The Bankers Bank