

November 7, 2019

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

**Re: Federal Reserve Bank Actions to Support Interbank Settlement of Faster Payments**

To Whom It May Concern:

On behalf of the Massachusetts Bankers Association's (MBA) 140 commercial, cooperative and savings banks and federal savings banks and savings and loan associations that employ more than 72,000 employees throughout the Commonwealth and New England, we appreciate the opportunity to provide our views on the Proposed Action (PA) on Interbank Settlement of Faster Payments.

We recognize that this proposal is the initial step in developing and implementing a real-time payments (RTP) network and will require extensive investments of time, resources and man hours over the next several years. The proposed FedNow service will increase competitive options for financial institutions and allow consumer and commercial customers to make payments in a fully operational real-time environment. The PA solicits comments only on the features and functionality of the proposed FedNow service as well as the initial competitive impact analysis. Our comments will focus on the issues of interoperability, competition and financial institution access to the service as well as the implementation timeline.

**Interoperability of the FedNow System with Other Providers Should be a Priority**

In recent public statements, the Fed has expressed skepticism about its ability to ensure interoperability for the FedNow service on the launch date. The PA makes clear that the Fed views interoperability as desirable, but not likely before 2024. MBA has serious concerns with this view.

Currently, private sector solutions such as The Clearing House have their own Real Time Payments Network (RTP) that reaches more than 50% of deposit accounts in the US. In addition, other providers may emerge prior to the launch of FedNow and consumer and financial institutions may have several choices in the marketplace. Should the Fed choose to not prioritize interoperability at launch, there will be at least two and possibly more parallel systems that cannot exchange transactions. We believe this will inhibit the growth of faster payments nationally as consumers and banks will be reluctant to adopt services that are incapable of clearing all transactions in real time.

We know that interoperability is possible as evidenced by the interoperability between the FedACH and private sector's Electronic Payments Network (EPN). Transactions are originated on one payment rail and then completed on another. This has been a significant benefit to the industry for many years. By not ensuring interoperability at its launch, the Fed either guarantees that financial institutions will either choose one solution or absorb all costs and inefficiencies of operating multiple services. We strongly encourage the Fed make all efforts to become interoperable with private sector solutions by the first day of operations of the FedNow service.

**Access to FedNow Should be Restricted to Chartered Financial Institutions**

Based on our reading of the PA, there is some ambiguity as to what types of financial services providers will have access to FedNow. As you know, only state or federal chartered financial institutions currently have access

to the Federal Reserve Payment Systems, as determined by Federal statute. All these institutions are subject to examination by state and federal regulators and must comply with capital requirements, deposit insurance and data privacy laws.

MBA believes that allowing entities other than federal or state chartered financial institutions to access FedNow introduces risks that are not acceptable to the payments system. Because they are highly regulated businesses, banks employ rigorous standards over governance of fraud claims and consumer harm. Other providers may not invest in the same consumer protection infrastructure that regulated institutions have built over many years. In addition, we have seen lax data security practices at non-bank entities result in the loss of personal financial data for millions of Americans. We strongly recommend that non-chartered financial institutions be prohibited from using the FedNow system so that sensitive customer data is not put at risk.

### **Implementation Timeline and Competitive Concerns**

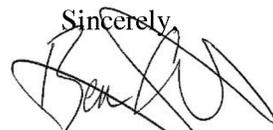
When the Association first learned of the Fed's formal proposal in August, we had serious concerns regarding the proposed development and implementation timeline. The PA indicates that initial transactions will not take place until 2023 or 2024. While we appreciate the Fed's pragmatic and conservative estimate of the amount of time it will take to develop the system, we believe FedNow will increase overall competition within the RTP sector and should provide a significant benefit to community banks around the country. Nevertheless, if the development and implementation take 4-5 years, some banks may be left behind. This delayed implementation will also freeze out a portion of the consumer market until 2024 or beyond.

Conversely, from the Fed's perspective, many other banks may opt for private sector solutions. The Association would implore the Fed to do all that it can to implement a faster payments solution more quickly. While an earlier launch may not be possible, it would be helpful to all market participants to share more information, including budgets, project plans and other relevant data with the industry. In the interim, this extended timeline for implementation makes private sector solutions more attractive and, therefore, could limit the impact and success of FedNow.

### **Conclusion**

Thank you again for the opportunity to provide our comments on the PA. While we have concerns with interoperability, financial institution access and the timeline for development, we believe the Fed's entrance into the RTP space will enhance competition in the market for banks and consumers. We hope the Fed will work to address our concerns, and we look forward to continued engagement with the Fed on this critical industry issue.

Thank you for consideration of our comments and concerns. If you have any questions or need additional information, please contact me at (617) 523-7597 or via email: [bcraigie@massbankers.org](mailto:bcraigie@massbankers.org).

Sincerely,  


Ben Craigie  
Director of Compliance and Training