

Proposal: 1670 - Federal Reserve Actions to Support Interbank Settlement of Faster Payments

Description:

Comment ID: 136999

From: Backlund Investment Co., John Moon

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Subject: Federal Reserve Actions to Support Interbank Settlement of Faster Payments

Comments:

NONCONFIDENTIAL // EXTERNAL

November 11, 2019

Ms. Ann Misback
Secretary Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue
Washington, DC 20551
Re: Notice and Request for Comments - Federal Reserve Actions to Support Interbank Settlement of Faster Payments; Docket No. 1670
Dear Ms. Misback:

First of all I would like to thank the Federal Reserve Board for its decision to develop a real-time gross settlement service. The Fed's decision ensures open access and fair treatment to all community banks regardless of size, charter type and location. This is extremely important to a small community bank located in Central Illinois.

In my opinion, the Fed has and must continue to play a critical role in the nation's payments system as it does today, alongside and in support of similar services offered by the private sector. The Fed's role prevents The Clearing House (TCH) which is owned by 25 of the largest banks from gaining a disturbing monopoly over real-time payments and will help reduce concentrations in financial services, increase competition, lower costs, foster innovation, employ necessary checks and balances, and create a critically important redundancy (so there is no single point of failure) in the payments system in times of economic stress.

My understanding is that the Fed intends to be able to implement this new service in 2023-24. I would hope that this timeframe can be shortened. A longer timeframe will result in community banks not being able to offer real-time payments to their customers, giving TCH's further competitive advantage! Please encourage the Fed to implement the FedNow Service as soon as possible!

The Fed stated that interoperability will evolve over time but remains a "key objective." Interoperability is required to achieve ubiquity, the widespread adoption and usage of real-time payments, which will be beneficial to community banks and their customers. This goal is dependent on the cooperation of TCH (and others) which is not assured. A reasonable balance must be struck between the pace of the Service's development and implementation and an inviting and feature-rich service. Interoperability needs to be a high priority.

The Fed also needs to play an integral role in the Payments Directory. A payments directory enables a payer to transfer funds to a payee (recipient) without knowing the details of the payee's account information by providing an alias or public identifier, such as an email address or a phone number. Other entities will likely be looking to insert themselves in the payment's directory and payments process (toll-takers) for their own benefit, but they must not prevail. The Fed is the trusted provider with its broad reach.

The Fed is also an essential commander on the front-line of fraud preventions and an essential ally of community banks in their efforts to prevent fraud losses. The Fed should be a repository of information, a sharable data base, about fraudulent activity similar to the way OFAC and Chex Systems operates today. This service will benefit all financial institutions in their fraud mitigation efforts. Please urge the Fed to develop fraud mitigation standards, and develop an information data base (with an appropriate hold harmless for good-faith contributors) to provide community banks with "robust" capabilities to

defeat fraudulent activity and prevent fraud losses.

It is important to note that I feel it is important for the Fed to incorporate a single set of rules and standards across real-time payment systems that will not favor one provider over another. Please encourage the Fed to look at the Faster Payments Council (FPC) for guidance in creating rules and standards for real time payments similar to how NACHA fosters compatibility and integration for the Automated Clearing House.

The Fed regulates (either directly, indirectly, or as an influencer) every federally supervised depository institution which has access to the payments system. Please urge the Fed to continue to exercise the necessary influence, particularly over TCH's owners and their RTP Network, to protect the payments system through the Reserve Bank's provision of payment and settlement services to banks.

Unlike the largest banks, community banks are reliant on the largest core processors to deliver their services in support of all of a banks' critical operations. Community banks are experiencing significant costs and delays with the largest core processors in implementing even simple requests for additional services and access to add-ons. A delay caused by the cores in allowing community banks to access the "FedNow" Service will put community banks at a significant competitive disadvantage.

It is critical for the Fed to use its regulatory authority to ensure that core processors and other service providers do not disadvantage community banks in their access to real-time payments.

I would like to thank you for the opportunity to comment on this proposal. Please don't hesitate to contact me directly by phone at 309-272-2726 or email at jmoon@backlundinvestment.com if you have any questions or would like additional comments from me.

Backlund Investment Co.

Sincerely,

John

John Moon

Vice President of Operations

Backlund Investment Co.

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