



SWIFT's comments on the General Description of the FedNow service

SWIFT

07 November 2019

Confidentiality: Public

SWIFT thanks the Federal Reserve System for the opportunity to provide comments on General Description of the FedNow Service as documented in the Federal Register /Vol 84, starting page 39317.

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If you wish to discuss any aspect of our response please do not hesitate to let us know.

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General SWIFT comments on Fed's proposal

We have carefully read the General Description of the Service and would like to provide comments and insights on some of the planned features and functionality, namely 1) the adoption of ISO 20022, 2) the enhancement of Fedline to support a 24x7x365 Service, 3) the support of a Request for Payment functionality and 4) Fraud prevention services.

Adoption of ISO 20022

We welcome the choice of ISO 20022 as message standard for the FedNow Service. This approach is in line with all the major instant payment clearing and settlement systems that have recently been (or that are planned to be) built. It will offer the FedNow participants improved flexibility and enable them to transport rich and better structured data, resulting in better automation and compliance.

We also would like to point out that a number of domestic instant payment systems are already clearing (or are planning to clear) payments that have been originated cross-border. Offering such a feature improves end-customer experience in terms of speed and 24x7 service availability for the respective currency worldwide. Therefore, whilst it is our understanding that the FedNow Service will initially aim at processing US domestic payments, we recommend to future proof its implementation by adopting from the outset the appropriate usage guidelines of the ISO 20022 standard that will allow the clearing of the domestic leg of cross-border transactions in the future.

Fedline 365x24x7

Upgrading Fedline to 24x7x365 will be paramount to support the instant payments market in the US and we would expect such upgrade to be subject to strong resiliency and security requirements. Also, given that instant payments can sometimes lead to significant volume peaks, we recommend considering features aiming at further mitigating the risk of service interruption in case of failure both at central system and participant level. Such features could, for example, consist in continuously monitoring the participants' connection to the central system (i.e. leading to preemptive alerts in case of connection failure or degradation) or performing load balancing of payment traffic across participants' sites (i.e. so that all payment traffic can be immediately redirected to a single site in case of failure of the other site, without service interruption or data loss). Other features such as, for example, prioritizing attended payments (i.e. for which the ordering customer is expecting an immediate response, hence time critical) over non-attended payments (i.e. non time critical) would further help smooth out the processing load.

Finally, for FedNow to deliver a ubiquitous service, the system will need to be accessible and used by a large number of financial institutions. These may include organizations of smaller size that do not necessarily have the expertise or the resources to implement and operate an infrastructure to receive and process instant payments on a 24x7 basis. We therefore believe that it is critical to engage with the vendor industry at an early stage to assess and select the most suitable options in order to support the specific segment of FedNow participants dealing with these constraints.

Request to Pay

We believe that the introduction of a “Request-to-Pay” capability as part of the FedNow service will bring significant benefits to its users and will positively contribute to the uptake of the service. At this stage a number of Request –to-Pay initiatives have been launched (e.g. UK, Eurozone) yet with no global standard emerging so far. We also note that Request-to-Pay is, in most communities, introduced as an “overlay service” or “community service” on top of the instant payments rails that a domestic operator rolls out.

We would therefore recommend that the Fed closely monitors (or potentially actively participates in) the future standardisation efforts in this area in order to achieve and adopt a global international standard which will also contribute to the uptake of instant payments in the cross-border space when this capability will emerge.

Fraud detection

Historically institutions have benefited from batch clearing and settlement cycles to provide a wider window of time for fraud detection and fraud recovery activities. Irrevocable, real-time payments provides greater opportunity for fraudsters and money-launderers to move and gain access to funds, obfuscate their activities and makes fund recovery significantly more difficult. Increasingly fraud detection needs to be implemented in real-time at the point of payment initiation and provide seamless customer experience with accurate detection.

We believe that fraud detection within the FedNow service needs to be considered from two perspectives:

- Scheme level: to focus on systemic risk and to protect FedNow from fraud (e.g. cyber-attacks) should the scheme or participants be compromised.
- Participant level: to provide mechanisms to help support the fraud detection activities of scheme participants.

Scheme level fraud prevention and detection

To provide scheme level protection from fraud, FedNow should consider:

- Extending the value limit approach to combined velocity and value limits, consider similar voluntary Bank level thresholds and encourage Banks to establish similar criteria for their customers.
- Collection of fraud data and fraud statistics from participants to monitor patterns of fraud and to allow issues at participants to be identified and addressed.
- Implementing a centralised detection capability focussed at protecting the bank participants themselves against cyber events or other major compromise. Liabilities should remain with the banks, but such a mechanism would provide a beneficial secondary scheme level control.

Participant level fraud prevention and detection

The responsibility for fraud detection should remain with the participants, but we believe that increasingly centralised fraud detection methods has benefits for all participants but where ultimate liability continues to sit with the participants themselves. We believe that

provision of opt-in centralised detection and tooling services can provide significant benefits for participants through:

- A holistic view of fraud and assessment of changing fraud threats
- Identification of patterns and associations between compromised accounts - where no single institution has a complete view
- Machine learning against transactional patterns
- Linkage and visualisation of fraud events

Such an approach could be of additional importance for smaller institutions, reduce costs and support adoption of FedNow. Such centralised detection would enhance banks detection capabilities but would not necessarily replace the need for banks to implement local controls that could consider other fraud indicators not available to FedNow.

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