

Commerce Bank
1000 Walnut
Kansas City, MO 64106

Ms. Ann E. Misback
Secretary, Board of Governors
Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

RE: Docket Number OP-1670: Federal Reserve Actions to Support Interbank Settlement of Faster Payments

Dear Ms. Misback,

Commerce Bancshares, Inc. ("CBI") is a regional bank holding company with one bank subsidiary, Commerce Bank ("Commerce"), and total assets of \$25.8 billion as of September 2019. Commerce is a full-service bank with 169 branches in Missouri, Illinois, Kansas, Oklahoma, and Colorado offering a diversified line of financial services including business and personal banking, wealth management and estate planning, and investments through its affiliated companies. A full suite of banking services, including electronic payments, investment management, and securities brokerage are also offered. CBI has operating subsidiaries involved in mortgage banking, credit related insurance, venture capital, and real estate activities.

Commerce appreciates the opportunity to comment on the notice and request for comment regarding the Federal Reserve Bank's proposal to develop a new real-time payment and settlement service, called FedNow. In commenting on the FedNow Service we will focus on considerations relating to specific proposed attributes.

1. Messaging

Commerce Bank supports the utilization of the ISO20022 standard as the format used for payment messages with respect to faster payments, including the various message types suggested. It will be important for the Federal Reserve to ensure that both current and future message types utilized through the private sector's network are compatible with the FedNow standard in order to achieve complete interoperability. Commerce would expect to see the FedNow Service leverage the use of ISO data elements to convey important bank-to-bank or Fed-to-bank detail to improve our ability to assess risk (e.g. Risk score indicators, authentication method, use case, third party involvement, etc.), similar to the detail provided in the card network's ISO format. It will be necessary for the Federal Reserve to establish and provide data layouts and definitions for each type of message and perform edits accordingly. Banks will require implementation and training support as the messages are made available.

2. Settlement Account

Commerce Bank agrees with the Federal Reserve for the FedNow Service to settle payments in master accounts, in conjunction with other payment and settlement services that occur during standard business hours. This will ease the operational burden of monitoring multiple accounts and enable all balances to be included with the calculation for the reserve requirement.

3. Seven-Day Accounting Regime & Business Day

To support the funding needs of a seven day accounting regime and extended business hours of the FedNow Service, Commerce Bank believes that the Federal Reserve should extend access to excess balance accounts and the discount window to match the processing days and hours of the FedNow service to ensure institutions have liquidity access to fund their reserve accounts for settling FedNow transactions. Additionally, there is a need for the Federal Reserve to include clarifications regarding how reserve account overdrafts will impact settlement of FedNow transactions should an institution not have access to the discount window and/or overdraw their reserve account.

While the Federal Reserve is not dictating banks adopt a seven day accounting regime nor extended business day, Commerce Bank recommends the Federal Reserve provide guidance for those banks not adopting seven day accounting regimes for how to compute reserve levels for weekend and holiday periods for all components of calculations affected, (such as deposit balance, cash on hand, FRB balance and balances at other institutions) and information the Federal Reserve will be providing to banks related to these computations.

4. Liquidity and Credit

To operate in an 24x7x365 settlement environment, Commerce Bank believes there needs to be access to funding during nonstandard business hours. The Federal Reserve should provide intraday credit on a 24x7x365 basis under the same terms and conditions to eligible banks as the current Fed Policy on Payment System Risk (PSR Policy). If a liquidity shortfall should occur that will impact the master account end of day balance over a weekend or holiday, the ability to react to the shortfall on the same day is required. There will need to be an active and liquid fed funds market, which will require Fedwire Funds Services to be available during weekends and holidays to facilitate the transfer of funds. In the event the master account is to be in an overnight overdraft, Fed discount window operations need to be extended through weekends and holidays to eligible banks.

5. Service Pricing

For the FedNow Service to be successful, the Service itself must deliver value to its stakeholders and be priced fairly and competitively. The cost recovery methodology that assumes mature volume estimates to establish price seems reasonable but fails to consider the reaction of the market, which may influence adoption of the solution. If full cost recovery is attempted prematurely, the Board's

overarching goal to promote ubiquitous, safe and efficient faster payments in the United States will be at risk.

6. Request for Payment

Commerce Bank supports the development of a separate, nonvalue message for “Request for Payment” for certain use cases to propagate the adoption of faster payments. Commerce Bank would expect that FedNow would align certain rules or guidelines with those of the private sector in order to ensure consistency and interoperability. Examples would include: allowing a sender to authorize a credit up to the full amount of the request in response to the request for payment and identifying the requestor as the liable party in the event of a customer acting upon a fraudulent request for payment. An early release of a federated directory with the Request for Payment message for limited use cases would allow banks to learn and adapt risk practices while making strides to stay competitive. This directory/message combination is currently being used or developed by private sector solutions in fintech money transfer solutions, which would put small to mid-sized Financial Institutions behind the market if this feature isn’t available with the initial launch of the FedNow Service.

7. Directory Service

Commerce Bank generally supports a payment directory governed by the Federal Reserve that would enable interoperability in a multi-operator faster payments ecosystem. An alias-based directory that all participating parties can utilize to execute payments should be a core component of the FedNow solution. The primary directive of the Board in offering a directory should be to facilitate interoperability with private sector directories while ensuring the security of the directory and trust amongst participants. In addition, this directory should act as a facility to prevent and mitigate fraudulent activity.

To further expand on and emphasize the importance of the Federal Reserve’s role as the Directory’s governance body, it should be responsible for an enrollment and access approval process, develop appropriate qualification criteria for each role, and assign and authorize appropriate access to the Directory. The Federal Reserve should ensure a clear reporting of assigned roles and auditing of access, and a viable mechanism to report abuse or fraud by any/all stakeholders. At a minimum, the Federal Reserve should create a directory architecture that ensures the privacy and protection of end user data, contains data elements that include aliases and end point routing information, supports appending fraud scores or other security related information to customer/alias records, and effectively identifies and consolidates duplicate alias instances.

8. Fraud Prevention Services

Effective fraud mitigation is critical in a faster payments environment, and fraud mitigation services are necessary for the Federal Reserve to offer as part of its FedNow Service. Fraud mitigation services should include both prevention and monitoring functions that utilize innovative systems,

tools, scores, etc., designed to communicate risk to FedNow participants. The Federal Reserve should take advantage of private sector technology and expertise to augment its FedNow Service, or endorse for bank use or consumption. Furthermore, we ask the Federal Reserve to act as a clearinghouse for reported fraudulent activity from all stakeholders as part of its FedNow Service, and represent that reported behavior on the FedNow Directory, either through the use of a score or other means of communication. Commerce Bank anticipates that it will need to implement technology to assess risk of each transaction in near real-time in order to respond responsibly in the allotted timeframe. The development of that technology may delay adoption or be cost prohibitive for small to midsized banks without some risk assessment taking place as part of the FedNow Service.

In addition, Commerce Bank urges the Federal Reserve to give ample consideration to the rules framework associated with the FedNow Service. In light of the creation of “Request for Payment” message and the accompanying innovative technology used to authenticate and deliver messages, EFTA and Regulation E must be examined and modernized to communicate clarity to all stakeholders. The rules should encourage use of secure authentication mechanisms, should not constrain innovation, and yet be precise enough to establish the rights between participants.

In closing, Commerce would like to thank the Federal Reserve System for the opportunity to comment on the Federal Reserve actions to support interbank settlement of faster-payments related to the proposed FedNow Service. Commerce Bank urges the Federal Reserve to remain agile during the development of the FedNow Service to not only build features and functionality expected and known in the industry today, but be able to keep up with and incorporate changes that would give those utilizing the private sector solution an unfair advantage in the market. Lastly, the time to market for the FedNow Service is critically important for the small to mid-sized banks planning to utilize this service. Commerce Bank would encourage the Federal Reserve to explore all opportunities to formally launch this service ahead of the projected dates of 2023/2024.

Sincerely,

A handwritten signature in black ink, appearing to read "Angela Waters", with a long horizontal flourish extending to the right.

Angela Waters
Vice President
Electronic Payments and Risk