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October 14, 2019

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

Re: Docket No. OP-1670

Dear Ms. Misback,

Dwolla, Inc. appreciates the opportunity to comment on the notice and request for public comment on actions to support interbank settlement of faster payments, as well as to point to areas of the proposal that could benefit from additional research or clarification.

Dwolla operates a payments platform that facilitates the movement of millions of dollars every day for business clients and their end users - collectively referred to as "Dwolla customers" - using the ACH Network. Many of Dwolla's customers utilize the existing same day ACH processing and settlement windows to make faster payments. However, there is demand within the Dwolla customer network and the industry for a real-time payments rail with accelerated payment capabilities. As a result, Dwolla strongly supports the Federal Reserve's development of a 24x7x365 real-time interbank settlement system for faster payments via the FedNow Service ("FedNow").

#### **Faster Payments Alternatives**

Central banks in various other countries across the globe have already improved infrastructure to support faster payments. Within the United States, we already have one private-sector provider of Real-Time Payments ("RTP") services - The Clearing House ("TCH"). However, the ownership and structure of TCH has an impact both on the ability of smaller financial institutions to participate and the choices ultimately made available to consumers.

In order to ensure that businesses and financial institutions within the United States remain competitive, there must be a choice for faster payments services. As an established and trusted entity, Dwolla believes the Federal Reserve Bank is in the best position to implement its own faster payments infrastructure via FedNow. While it may not be available immediately, it is important for the Federal Reserve Bank to consider system interoperability with TCH and other payments providers as an end goal.

## **Cost of Service**

The proposal anticipates that FedNow will be available in 5-6 years. However, any delay in implementation necessarily creates lost income and market share for financial institutions and businesses, such as Dwolla, as they wait for implementation. When setting policy for the timeline of such an implementation, Dwolla would like the Federal Reserve to consider the opportunity cost for those consumers, financial institutions and businesses that currently lack access to a faster payments solution.

Per the proposal, costs for a “mature service” can typically be recovered within 10 years; however, cost recovery for FedNow could take more than 20 years. To an extent, this is understandable. It will obviously be difficult to project use volume and the rate of user acceptance for the new service.

However, the utility of any new service is necessarily dependent upon the cost to ultimate users. Smaller financial institutions and consumers may be the most direct beneficiaries of such a service. However, those entities and individuals are also uniquely impacted by the service cost.

The Federal Reserve has stated it will announce pricing “before going live with FedNow.” However, in order for financial institutions, industry participants, and consumers to fully evaluate the utility of this potential new service, we believe that the Federal Reserve System should identify an *estimate* of related costs for the FedNow service as soon as reasonably practicable. These estimated fees could then be adjusted on an as needed basis. Such transparency would allow potential participants in FedNow to better understand the true cost of service and implementation.

## **Liquidity Management + Risk Exposure**

Dwolla appreciates the Federal Reserve Bank’s recommendations for liquidity management and accounting regimes. While Dwolla is supportive of this concept, Dwolla understands the importance of ensuring integrity in the financial system. As a result, Dwolla would appreciate additional clarification as to how the Federal Reserve System intends to improve liquidity management while maintaining appropriate integrity controls to protect financial institutions from fraud and bad actors.

## **Funds Availability Standards**

Per the proposal, the Federal Reserve Bank would continue to establish an “opening” and “closing” of business, even though transactions may come through at any time with continuous processing. Transactions completed after FedNow’s closing but before midnight each calendar day would be recorded on the Federal Reserve Bank’s accounting records as transactions occurring on the next business day. However, the proposal states that this processing schedule does not dictate that participating banks adopt the same convention, or preclude other conventions, for recording transactions on customer accounts. Dwolla encourages the Federal Reserve Bank to develop an industry standard for FedNow transaction posting times and funds availability, to alleviate confusion and provide ubiquity to end users of the service.

## **Directory Service**

In order for banks to send a valid payment message using the FedNow service, the sender's bank must have the banking information of the receiver. Access to a directory service in order to obtain this information is a critical piece of the FedNow service. Dwolla believes such a directory would need to be available on day one in order to have the best end user experience.

As noted in the proposal, this goal could be achieved in a variety of ways. Dwolla would like to see the Federal Reserve Bank encourage banks to establish connections to existing private-sector directories using a centralized link, rather than building its own directory. This would allow banks to utilize a trusted resource for this service, while allowing the Federal Reserve Bank to focus on a faster time to market for the FedNow service, all while ensuring the establishment of a necessary directory at the time of implementation.

## **Request Functionality + Fraud Monitoring**

The proposal states the FedNow service will allow for a "request for payment" functionality that would allow a sender to authorize a credit transfer in real time based on the receiver's request message. Dwolla applauds the Federal Reserve Bank for considering this feature, as businesses would undoubtedly benefit from this feature. However, when introducing this type of feature, Dwolla cautions the Federal Reserve System to consider adding additional fraud mitigation functionality, such as payment monitoring to alert participating banks of unusual transactions. As Dwolla remains strongly committed to integrity, Dwolla would be happy to assist the Federal Reserve System with considering how to implement best practices relating to this aspect of the proposed FedNow service.

## **Extended Hours for Current Services**

The Federal Reserve has indicated it may expand its existing Fedwire Funds Service and National Settlement Service (NSS) hours "up to 24x7x365." Dwolla is in favor of additional processing times, and would seek to incorporate those services to better service Dwolla clients and end users. However, additional clarity about how this goal will be achieved would be appreciated. Any insight that the Federal Reserve intends to reach this goal, such as through additional processing windows or through some around-the-clock mechanism, would be helpful.

## **Adoption + Implementation**

Dwolla strongly encourages the Federal Reserve Bank to find innovative ways to make this service available on a faster timeline, as there is a definite urgency for ubiquity in the faster payments space. Dwolla encourages the use of pilot programs, incremental iterations of FedNow, or any other mechanism to speed the development and implementation of this system. As an innovator in the financial technology sector, Dwolla remains ready to assist in any aspect of that development process.

## **Conclusion**

Dwolla strongly supports the steps that the Federal Reserve Bank is taking towards faster payments in the United States, and we believe the accelerated implementation of the FedNow service would be an enormous and necessary step forward for our country's payments system as a whole. We appreciate the opportunity to comment, and are happy to discuss further should the Federal Reserve Bank have additional questions.

Sincerely,

Lindsey Richardson  
ACH Operations Manager  
Dwolla, Inc.