

Proposal: 1750(AG16) Reg J; Collection of Checks by FR Banks and Funds Transfers Through Fedwire

Description:

Comment ID: 139503

From: SAFE Credit Union, Katie Lawrence

Proposal: 1750(AG16) Reg J; Collection of Checks by FR Banks and Funds Transfers Through Fedwire

Subject: Collection of Checks and Other Items by Federal Reserve Banks and Funds Transfers through Fedwire

Comments:

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Hello,

Please find SAFE Credit Union's comments on the proposed amendments to Regulation J, Docket No. R-1750; RIN 7100-AG16.

The Board requests comment on all aspects of the proposed amendments to Regulation J. The Board requests comment on the following specific questions:

1. The proposed regulation requires a FedNow participant that is a beneficiary's bank to make funds available to the beneficiary immediately after it has accepted the payment order over the FedNow Service.

a. Should the Board set out specific time parameters to clarify the meaning of "immediately" as used in this funds availability requirement? Why or why not?

SAFE's response:

The Board must define a specific timeframe that maintains the appearance of the transfer happening "immediately" but still allows the creditor agent enough time to determine if there is a matching account to post the funds. For a real-time payment service to be widely adopted by users and the industry as being "real-time," payments must happen with the appearance of immediacy. To facilitate that "immediacy" appearance for FedNow payments, SAFE Credit Union believes that funds must be made available within five seconds of receipt by the creditor agent. Given that card transaction decisions are made within 10 milliseconds means that, regardless of settlement not being included in that timeframe, they are accustomed to the illusion of "immediate" and longer than five seconds would diminish the intent and appeal of the FedNow network. This timeframe would also allow sufficient time in case the creditor agent is using a third-party service provider to connect to the FedNow network. Additionally, this would mirror the timeframe established by the private-sector instant payments service, Real Time Payments (RTP), and would increase the interoperability of these two competitive services.

b. What would be the benefits and drawbacks of specifying that "immediately" as used in this requirement means that the beneficiary's bank must make funds available to the beneficiary within seconds or, alternatively, within one minute after it has accepted the payment order over the FedNow Service??Or, is there another way for the Board to specify the funds availability timeframe that is consistent with improving the speed of the end-to-end process for an instant payment service and continues to align with prevailing market practices over time?

SAFE's response:

Benefits:

- * Increased adoption of instant payments service
- * Improved B2C payments
 - o Insurance claims payouts
 - o Gig worker payouts

- o Refunds received instantly
- * Improved C2B payments
 - o Timely utilities payments to avoid service shutoffs
 - o Improved bill pay experiences
- * Improved cash flow management
- * More cost effective than paper-based payments
- * Critical for future operability globally

Drawbacks:

- * Technology costs/upgrades required to post within timeframe
- * Fed master account liquidity management required after normal business hours including weekends and holidays
- * Operational updates to support instant payments
- * Accounting adjustments to support RTGS on a 7-day accounting schedule rather than typical batch processing
- * Risk for little to no time to correct errors or prevent fraud
- * For credit unions on an account suffix-based core system, there is risk of having a higher rejection rate due to incorrect account numbers being used. Credit Unions with this account structure setup may require additional due diligence to post within the timeframe required.

2. The proposed regulation accommodates a feature of the FedNow Service under which a FedNow participant that is the beneficiary's bank may notify its Reserve Bank that it requires additional time to determine whether to accept the payment order over the FedNow Service because it has reasonable cause to believe that the beneficiary is not entitled or permitted to receive payment. Are there other circumstances where a beneficiary's bank should have additional time to determine whether to accept a payment order? If so, what are those circumstances?

SAFE's response:

To maintain the appearance of an instant payment, funds need to be accepted or rejected within seconds. There may be rare instances where the receiver's account has restrictions which may call for manual review prior to posting and making funds available. This is the only instance that should qualify for an acceptance without posting (ACWP) situation. If creditor agents are posting strictly based on account number and if they must make a decision to post within 5 seconds of receipt, then there likely would not be sufficient time to validate the receiver's name. A validation such as this would likely occur after posting and it would be up to the creditor agent to freeze those funds, causing no delays in the decisioning within the FedNow network.

Additionally, this is where the transaction messaging is critical for this service. The card networks and RTP have status messages. If a transaction is unable to post, a message back to the sending bank needs to indicate it within the five second window. This ensures the 'immediacy' expectation of the consumer because they are receiving a response. For example, the transaction is approved, under review, or rejected. The RTP service allows for two-way communication between the sending and receiving banks. If there is an issue with posting the transaction, a message goes back to the sending FI and the flow is transparent to the user. Also, if a 'review option must occur' additional timeframes need to be put in place on for the receiving FI to review and take action (post or reject). If not, then the immediacy intent is in jeopardy.

SAFE's overall commentary on amendments to Regulation J and its subparts:

As long as a timeframe is defined for the term "immediate" as it relates to making funds available to the beneficiary, SAFE Credit Union agrees with all proposed technical corrections in Regulation J subpart A to update cross-references to other regulations that are no longer current, proposed updates to subpart B that provide clarification that the Reserve Banks will be operating two separate funds transfer systems, and distinguish between the two funds transfer systems with the addition of subpart C.

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