CATALYST
Corporate Federal Credit Union

August 2, 2021

Via electronic submission

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

Re: OP-1749 – Potential Modifications to the Federal Reserve Policy on Payment System Risk to Expand Access to Collateralized Intraday Credit, Clarify Access to Uncollateralized Credit, and Support the Deployment of the FedNow Service

Dear Ms. Misback:

Thank you for the opportunity to comment on OP-1749. Catalyst Corporate Federal Credit Union (Catalyst) is a wholesale credit union serving over 1,100 member credit unions and their affiliates. On behalf of those member credit unions, Catalyst coordinates monthly payment transactions totaling 31.3 million checks, 331,000 ACH, 81,000 wires, 1.2 million debits and recently introduced a new person-to-person (P2P) payments platform.

Catalyst commends the Federal Reserve Banks' (FRB) staff and Board for collaborating with the financial industry on the development of the FedNow Service. The Board's proposed amendments are thoughtful and provide the necessary framework to enable faster payments.

Catalyst is in support of the development of the FedNow Service and the necessary regulatory changes. The proposed adjustments to intraday and overnight credit access will be positive measures for adoption and participation in FedNow. Access to credit, along with the Liquidity Management Tool (LMT), will be critical support services for financial institutions managing activity flowing through their Master Account at the FRB.

Specific to the proposed regulation:

- As a FedNow pilot participant with the ability to contribute during the advisory phase of the project, Catalyst concurs that these policy updates are necessary to support the 24X7X365 FedNow instant payments service being developed.

- Catalyst recommends preventing LMT transfers which move the correspondent institution to an overdraft position, particularly as the LMT transfers may be initiated by respondent institutions to resolve their overdraft situation.

- The proposed intraday credit and LMT amendments should serve as a baseline and, in the future, support the expansion of other payment activity. For example, this framework could be instrumental in supporting net settlement arrangements currently in place using the FRB's Net Settlement Service.

  Net settlement arrangements are often quite large, as they aggregate the payment activity of many financial institutions to coordinate the net settlement exchanged to and from one another. The netting of those dollars provides notable value. Having the ability to more easily monitor and move money via intraday credit will further benefit financial institutions individually and collectively in the settlement arrangement.

- Catalyst suggests the FRB consider a comprehensive educational effort focused on the changes being introduced. Implementation of the FedNow Service will require an understanding by financial institutions looking to participate and, in some cases, core system changes to accommodate a 24X7X365 accounting process.

  Through Catalyst's involvement in the FedNow pilot group, we have gained an understanding of how the future FedNow environment will define the "business day," as well as what will be required procedurally to accommodate the beginning and end of each day. As a result, Catalyst is considering several enhancements to our settlement and accounting processes to prepare for FedNow. Financial institutions not in the pilot group likely do not yet have the insight to prepare for FedNow and could benefit from detailed communication as they budget and allocate 2022 resources.

  In addition to allocating resources to accommodate the 24-hour transactions and 7-day settlement, preparation is also necessary for anticipated increases in item level transactions and settlement expected to post to each financial institution's Master Account at the FRB. This is a significant change from the legacy payment rails which approach settlement from a batch process. Catalyst encourages the FRB to provide industry education on this as quickly as possible. Understanding that FedNow is planned for 2023, it is critical that financial institutions are informed and given ample time to upgrade systems and adjust processes.

In answer to the specific questions desiring a response (page 29782 section III):

1) In response to the question on whether the proposed changes help clarify conditions for maintaining access to intraday credit for the purpose of our institution's liquidity planning and

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risk management, the answer is yes. As we described above, however, extensive communication and education is requested to give financial institutions the details necessary to prepare.

2) On the question of whether in simplifying the max cap, the existing streamlined process for FBOs to request max cap under the current PSR policy should be eliminated, the answer is yes. Any consolidation of policy and simplification would be beneficial. Similar or redundant policies, or those that become outdated in the new FedNow environment, should be consolidated. Catalyst applauds the Fed's actions to use the release of FedNow as an opportunity to streamline and update Fed policies.

3) Regarding the question of whether the supervisory rating of an institution's holding company and affiliate(s) continue, as proposed, to be key factors in a Reserve Bank's evaluation of whether an institution is eligible for uncollateralized intraday credit, the answer is yes. Not considering the supervisory rating would be remiss. The Fed's role is not to take on the risk exposure of all financial institutions. The proposed regulation clearly further encourages financial institutions to utilize the Fed's collateralized credit facilities. This enables necessary credit but pushes risk back to the financial institution. That said, the need for some uncollateralized credit access to healthy institutions can provide benefit to the Fed, examiners, and individual financial institutions managing through short-term liquidity shortfalls and should remain in place as a regulatory option.

- Item IV (2) on page 29782 addresses the proposed regulation's impact on "small entities" (under $600 million). As described, this proposed regulation simply provides clarification versus altering eligibility for net debit caps; thus, it does not appear to adversely impact "small entities," many of which are credit unions. As a member-owned, not-for-profit corporate credit union, Catalyst acts as an aggregator for payments and as a liquidity source for both small and large credit unions. This aggregation function provides a critical support role to credit unions and their individual members. Thus, the relationship Catalyst has with the Fed, and the consideration of Fed policy to aggregators, provides substantial benefit to credit unions and their members.

Thank you for your consideration of these comments and for collaborating with the financial industry as the Fed advances the transformational FedNow Service.

Sincerely,

Bruce M Fox

Bruce Fox
Chief Executive Officer
Catalyst Corporate Federal Credit Union