

Proposal: 1748 (AG15) Regulation II - Debit Card Interchange Fees and Routing

Description:

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From: Chris Sikes

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Subject: R-1748; Regulation II - Debit Card Interchange Fees and Routing

Comments:

NONCONFIDENTIAL // EXTERNAL

Ann Misback Secretary Board of Governors of the Federal Reserve 20th Street and Constitution Ave Washington, DC 20551 Re: Proposed Guidelines for Evaluating Account and Services Request (Docket No. OP-1747) Dear Ms. Mishback: I applaud the Federal Reserve's efforts to create guidelines for evaluating applications from non-traditional banks for account and payment services at Federal Reserve Banks. While I believe the guidelines are a good first step to promoting the safety, soundness and security of the financial payments system, they can be improved. Firstly, all entities seeking access to account and payment services should be subject to at least the same standards and regulatory and supervisory oversight as traditional banks. To access the system today, traditional banks are subject to robust regulation and supervision and are required to publish financial data on a quarterly basis. These standards make our payment system efficient, secure, and safe. Given non-traditional charters are susceptible to money laundering, cybersecurity, and consumer data breaches, they should-at a minimum-be required to meet similar risk management mitigation and governance practices to protect consumers, the payments system and US financial system. Secondly, the Federal Reserve should provide clear and specific details on the standards necessary to gain and maintain access to accounts and services at the Reserve Bank. For example, the Fed acknowledges novel charters may not have federal oversight or are engaging in activities that are riskier and more volatile than traditional banks. Considering this, it would be appropriate to hold these novel charters to even higher standards commensurate with the risk they pose to the stability of the financial system and the implementation of monetary policy. However, despite this acknowledgement, the proposed guidelines do not provide specific enough details on the necessary levels or composition of capital and liquidity or how the Fed will evaluate the ability of novel charters to manage their risks on an ongoing basis. A set of clear and precise standards and expectations is necessary to make the process more transparent and help ensure that the Reserve Banks apply standards consistently. Additionally, if the Fed is to move forward with implementing a set of guidelines to evaluate applications for payments and account services, it should also: Establish a coordinated evaluation committee: To advance the goal of creating a uniform evaluation policy, the Federal Reserve System should create a coordinated Board-led evaluation committee to review all applications for Reserve Bank accounts and services. Such centralization would improve the evaluation process and bring the unique expertise and perspective of each Reserve Bank and the various functional expertise of the Board to the review, bringing system-wide perspectives to bear. Ensure an independent assessment of an institution's risk profile. The guidelines note that , a Reserve Bank will incorporate, when possible, the assessments of the applicant's state or federal supervisor into its own "independent assessment." While the perspectives of an entity's primary regulator should be considered, , these assessments alone are insufficient. Therefore, I strongly support an "independent assessment" by the Reserve Banks and the Board since you have payment system oversight and a financial stability mandate. Mandate ongoing Federal Reserve System review of entities not subject to federal supervision. Participants in the payment system should not be evaluated solely on policies and procedures outlined on their application. Entities granted access to the payment system should be subject to ongoing supervision and disclosure requirements to ensure that they continually meet the Federal Reserve's expectations. Require audited financial reports. The Reserve Banks must be able to assess the condition of the account holders on its balance sheet on an ongoing basis. For those entities that do not file detailed Reports of Condition and Income (Call Reports) or similar reports, I recommend periodic publicly disclosed and audited financial disclosures

be required for access to Reserve Bank accounts and payment services. This reporting would provide the Reserve Banks and market participants the information necessary to assess an entity's condition on an ongoing basis. Consumer protection. In order to obtain an account and to the extent the applicant services consumers, entities must demonstrate an effective program to meet all relevant consumer protections, including those related to Regulation E. The decision to allow access to Reserve Bank accounts and services will have consequences for the Federal Reserve System, financial institutions, and potentially markets and the broader economy. As a result, the Federal Reserve should establish detailed, transparent requirements and proper oversight to evaluate applications and protect the payments system. Thank you for the opportunity to submit comments on this matter. Sincerely,
Chris Sikes