

Federal Reserve Faster Settlement Proposal

The Federal Reserve is considering the creation of the first new payment system in more than 40 years and it is important for your bank to be heard. ABA will be drafting a comment letter representing the entire organization, but it is important that the Federal Reserve hear from as many banks as possible. ***We urge you to submit comments on behalf of your own bank that reflect your specific perspective.*** The letters may be brief and do not have to respond to all of the questions posted in the Federal Register Notice. If your bank has strong opinions on only two or three issues, then address only those in your letter. Submitting the letter is most important.

ABA formed a Working Group to help draft its response to the proposal and it has met four times already. ABA continues to seek out feedback from bankers to learn more about how the proposal may affect the banking industry.

The Federal Reserve issued a [Request for Comment](#) on whether they should consider creating a new, faster settlement infrastructure to support real time payments in the United States. This effort can be traced back to the Fed's 2013 [Payment System Improvement-Public Consultation Paper](#) and more recently to the recommendations made by the [Faster Payments Task Force Final Report](#) in 2017. ***Comments are due on December 14, 2018.***

The Fed seeks comment on the benefits of it creating a new Real Time Gross Settlement System (RTGS) that would operate 24/7/365 enabling payments to clear and settle on a real time basis at any time. Another part of the proposal would create a Liquidity Management Tool (LMT) that would help banks manage fund balances in their faster payments accounts to ensure that excess funds don't build up and that balances are adequate to ensure that all authorized transactions are processed.

There is both consensus and disagreement among industry participants:

➤ Industry Common Ground

- ***Interoperability***—For the purposes of this comment, interoperability means that ability of a transaction to be originated on one faster payments rail and be received on another faster payments rail assuming both rails offer similar levels of service. If the Federal Reserve becomes an operator it must interoperate with existing real time payment solutions in the private sector, such as that offered by The Clearing House (TCH). This will ensure that FIs don't have to choose between offering only one solution that can't connect with the entire marketplace or the inefficiency and expense of operating two different systems. Private sector solutions should not be subject to an interoperability mandate.
- ***Liquidity Management Tools (LMT)***—The LMT proposed by the Fed would allow 24/7/365 funds transfers from an FI's master account to a faster payments account. This would ease concerns about funds sitting idle in faster payment accounts or low balances causing payments to be halted overnight or on weekends

when Fedwire is closed. The LMT service should be developed and it is essential that it work with any internal Federal Reserve solution AND with private sector solutions. Creating an LMT that can be used in any public or private solution will encourage more FIs to participate in faster payments. The LMT can be and should be developed independently of any other Federal Reserve initiative as quickly as possible.

- ***Bank-Centric***—The current requirement that restricts direct access to the payment systems only to chartered financial institutions must apply to any new payment rails developed by the Federal Reserve. Limiting access to well regulated, capitalized entities that are required to protect consumer data by meeting high data security requirements would minimize the risks of payments not being completed and the security of any data in transit or at rest. Introducing non-bank participants into a faster payments system will increase the threat to the safety and soundness of financial institutions and weaken the stability of the system itself.

➤ **Differences of Opinion Within the Industry**

- ***Federal Reserve Becoming an Operator***—The proposal centers on the creation of a new Real Time Gross Settlement System (RTGS) that would be operated by the Federal Reserve. The RTGS would serve as the infrastructure for bank settlement. It would not contain any bank customer facing applications. Some members prefer the Federal Reserve to act as operator for faster payments in a manner similar to how the two public/private sector operators of check and ACH clearing work today. Having two operators will encourage competition and increase resiliency in case of an emergency.
- ***Federal Reserve Not Becoming an Operator***—Some members prefer that the Federal Reserve let the private sector solutions have more time to succeed in meeting the real time payment demands of the marketplace. The TCH private sector solution is a not-for-profit initiative that charges the same fees for all financial institutions, provides no volume discounts, and operates with a cost recovery model not designed to benefit one FI over another. Even with this structure in place, some members are uncomfortable having one faster payments solution available that is owned and operated by their competition.

To offer any new payment service, the Federal Reserve must meet three significant requirements set forth in the Monetary Control Act of 1980 (MCA). First, the service will provide a clear public benefit. Second, the service is one that other providers alone can't adequately provide. And third, costs must be fully recovered in the long term.

The Federal Reserve will be considering all of the written comments it receives to determine whether to develop a faster settlement system and/or a Liquidity Management Tool. Given there is both consensus and disagreement amongst members as highlighted above, every comment is important and your bank's views can be directed to the Federal Reserve via website portal,

email, fax, or via the U.S. Postal Service by December 14, 2018. All of the submission information can be found in the first two pages of the [Federal Register Notice](#).

Submission Methods (include Docket No. OP-1625 as an identifier with the submission):

- *Agency Website:* <http://www.federalreserve.gov>. Follow the instructions for submitting comments at <http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm>.
- *Email:* regs.comments@federalreserve.gov. Include docket number in the subject line of the message.
- *FAX:* (202) 452-3819 or (202) 452-3102.
- *Mail:* Ann Misback, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW, Washington, DC 20551