Federal Reserve Actions to Support Interbank Settlement of Faster Payments

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Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System
0th Street and Constitution Avenue, NW
Washington, DC 20551
Docket No. OP – 1670

Dear Sir or Madam,

The Conference of State Bank Supervisors ("CSBS") appreciates the opportunity to comment on the Notice and request for comment issued by the Federal Reserve Board (the "Board") titled "Federal Reserve Actions to Support Interbank Settlement of Faster Payments". Through the Notice, the Board has announced its determination that the Reserve Banks should develop a new interbank 24x7x365 real-time gross settlement service with integrated clearing functionality, called the FedNow Service, to support faster payments. As explained below, CSBS supports the Board's decision to develop the FedNow Service because we believe this service will provide the infrastructure needed to achieve ubiquitous, safe and efficient faster payments in the United States.

CSBS and State bank regulators have long supported the Federal Reserve System (the "Federal Reserve") playing an operational role in providing payment and settlement services to the banking industry.

Through this role, the Federal Reserve has helped advance fundamental improvements in the nation's payment system as payment capabilities have evolved with the improvement of technology. From facilitating the nationwide clearing of checks, to fostering the development of the ACH system, to encouraging the transition to a virtually all-electronic check-processing environment, the Federal Reserve has, historically, served as the catalyst for change to ensure that payment system infrastructure keeps pace with modernization in the payment industry.

State bank regulators view the development of FedNow as the Federal Reserve again laying the necessary foundation to ensure that payment capabilities adapt to innovation and technological advancement.

Accordingly, State bank regulators support the Federal Reserve developing and operating FedNow to support faster payments. For several reasons, we believe the Federal Reserve taking this action is critical to ensure equitable and ubiquitous access to faster payments settlement and clearing services.

First, the development of FedNow is essential to achieve the nationwide reach required to support ubiquitous faster payments. The United States is fortunate to have an exceptionally diverse and competitive banking industry, with over 10,000 banks and credit unions that vary in size, geographic reach and customers served. Given the sheer number of banks in the U.S., it is unlikely, even in the long term, that any single private sector operator alone could or would connect to the thousands of smaller and midsize banks across the country.

But, through its existing nationwide payment infrastructures, the Federal Reserve already has established relationships with these institutions and, therefore, is uniquely capable of reaching these institutions. For this reason, CSBS believes the Federal Reserve's involvement through FedNow is critical to enable smaller banks to offer faster payments solutions for end-users. Relatedly, by achieving nationwide reach, the development of FedNow will help ensure equitable access for smaller banks that would otherwise be unable to access faster payments settlement infrastructure and, as a result, would be precluded from offering faster payments services to their customers.

The development of FedNow not only fosters equitable access by banks of different sizes but, because it is operated by the Federal Reserve, equitable access is ensured across different types of institutions. In particular, because the Federal Reserve is authorized to provide settlement and clearing services only to depository institutions, access to FedNow is limited to institutions which are subject to the same or similar levels of regulatory scrutiny and stringency. CSBS believes equitable access would not be achieved if non-depository institutions are permitted to directly access Federal Reserve services.
Accordingly, we appreciate the Notice making clear the direct access will be limited to depository institutions and we encourage the Board to commit to this approach not only because the Federal Reserve Act requires it but also because it is essential to achieving equitable access.

In addition to achieving nationwide reach and ensuring equitable access, the Federal Reserve is uniquely capable of operating an interbank settlement service for faster payments because, as the nation's central bank, it has the requisite tools to ensure the safe and smooth functioning of faster payments in the U.S. As acknowledged in the Notice, in a 24x7x365 environment where payments settle continuously in master accounts, account balance management will become significantly more complex. The Federal Reserve has the capabilities to support the safe and smooth functioning of faster payments through the provision of intraday credit and account monitoring tools. CSBS encourages the Board to remain open to revising the terms and conditions for the provision of liquidity and credit as appropriate .We also encourage the Board to ensure that all requisite liquidity management and account monitoring tools are available with the official launch of FedNow to ensure participation in the new service is not deterred by account balance management concerns.

Lastly, we encourage the Federal Reserve to study, monitor and report on how the development of FedNow and other faster payment settlement services is currently and will in the future impact the business model of banks and the composition of the banking industry. In particular, it would be useful to gain an understanding as to how the adoption of faster payments services will impact legacy revenue streams from payment products for which faster payments serve as a substitute; what use cases and value- added services are or will materializing as faster payments services proliferate; and what are the social costs and benefits of faster payments services relative to traditional retail payments services (i.e. check, ACH).

In sum, CSBS believes the development of FedNow is essential to ensure equitable and ubiquitous access to faster payments settlement and clearing services and to ensure the safe and smooth functioning of faster payments. Accordingly, CSBS commends the Board's determination to develop FedNow to support faster payments in the United States.

Sincerely,

John Ryan
President & CEO

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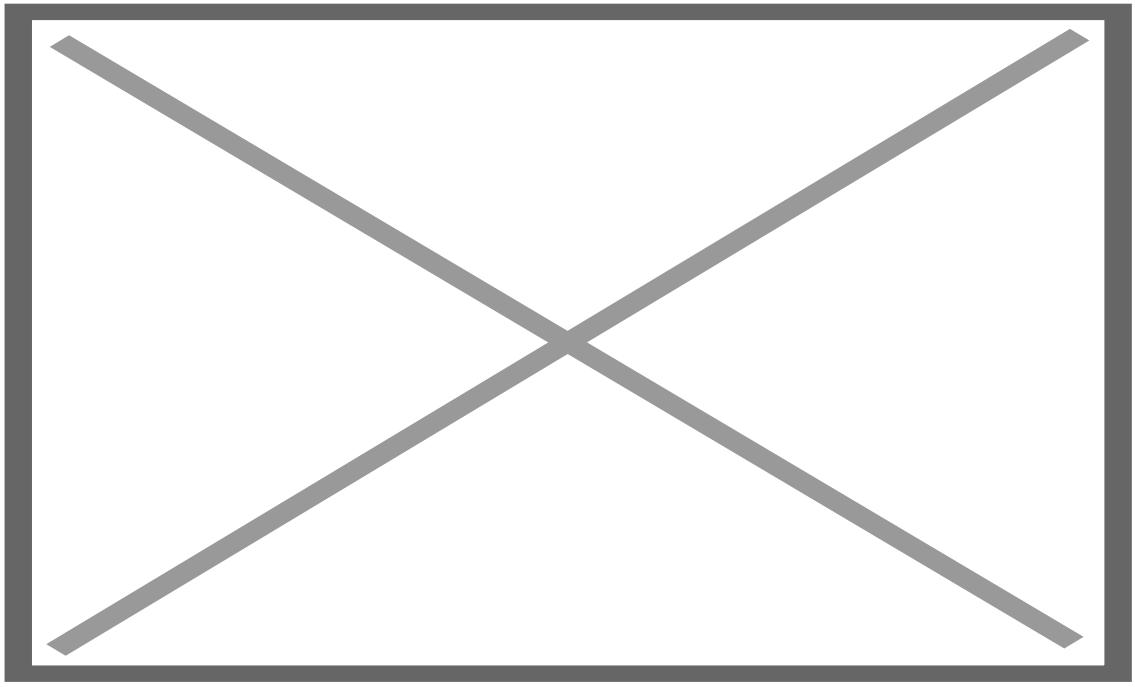

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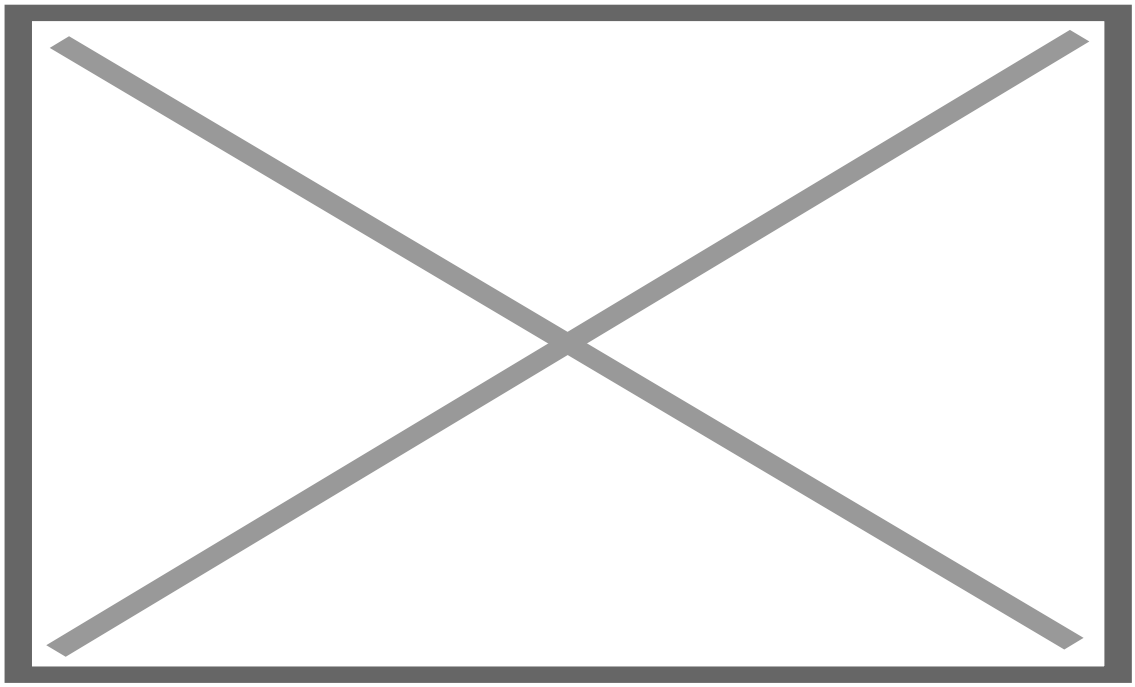

202.296.2840
newsroom@csbs.org
1129 20th Street, N.W., 9th Floor, Washington, DC 20036