



December 14, 2018

Via Electronic Mail

Ms. Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue, N.W.
Washington, D.C. 20551

Re: Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments (Docket No. OP-1625)

Ladies and Gentlemen:

The Bank Policy Institute¹ appreciates the opportunity to comment on the Board of Governors of the Federal Reserve System's recent request for comment on potential actions that it might take to "promote ubiquitous, safe, fast and efficient payments in the United States."² While we support the Board's broader objective of promoting faster, safe, ubiquitous payments in the United States and its work to date in bringing together a wide array of stakeholders to further that objective, we believe that the Board's proposed establishment of its own, government-operated "24x7x365" real-time gross settlement ("RTGS") system is both unnecessary and unwise at this time.

Although the development of faster payments in the United States is an important goal, the Federal Reserve's efforts over the past several years – including its *Strategies for Improving the U.S. Payment System* initiative and the work of its 320-member Faster Payment Task Force – have made clear that this goal can and should be achievable without the Federal Reserve choosing to own and operate the payment system itself. In fact, as the Federal Reserve acknowledges in the proposal, private sector initiatives are already well underway to bring real-time payments to American consumers and businesses in a manner that satisfactorily meets the criteria identified by the Faster Payments Task Force as key features of a real-time payments system, including efficiency, safety and security, speed, and the likely achievement of ubiquity. Simply put, and consistent with the Federal Reserve's approach until the recent release of the request for comment, we believe that the Federal Reserve should not directly enter the marketplace with its own faster payment product and system, unless and until the private sector has shown it has not and cannot do so.

The direct establishment and operation of a "24x7x365" RTGS also raises a range of other policy issues not appropriately addressed in the request for comment. First, as the Federal Reserve notes, real-time payment systems

¹ The Bank Policy Institute is a nonpartisan public policy, research and advocacy group, representing the nation's leading banks and their customers. Our members include universal banks, regional banks and the major foreign banks doing business in the United States. Collectively, they employ almost 2 million Americans, make nearly half of the nation's small business loans, and are an engine for financial innovation and economic growth.

² 83 Fed. Reg. 57351 (Nov. 15, 2018).

are relatively novel and innovative, and therefore can and should be expected to undergo significant refinement and improvement over time in response to the forces of competition and consumer demand. Yet placing ownership and operation of a real-time payments system in direct government hands substantially insulates that system from such pressures, meaning that innovation in that system – particularly vis-à-vis global peers – will be dependent on Federal Reserve policy, and not market forces. Second, as the Federal Reserve also notes, part of the significant potential of a real-time payments system is the prospect for particularly information-rich payment messages – for example, those that use email addresses or phone numbers as identifying aliases for customers, or that imbed invoices or other transactional details. Yet it is hard to see how these potential use cases could be integrated into a Federal Reserve-operated system without raising difficult privacy questions about a government agency’s direct use and retention of such a broad range of customer information and details. Third, the development, operation and innovation of a faster payments system obviously demand substantial technological and managerial expertise, as well as significant upfront investment. Yet the request for comment provides no discussion of whether or to what extent the Federal Reserve has that expertise, or how it would acquire it.³

Finally, we note that the mere prospect of the Federal Reserve’s development of its own real-time payment system is likely to act as a significant deterrent to the further development of a ubiquitous private sector alternative. For this reason, we urge the Federal Reserve not only to defer any further work on its own “24x7x365” RTGS system, but to explicitly and publicly affirm that it has no plans to do so.

Respectfully submitted,



Greg Baer
Chief Executive Office
Bank Policy Institute

³ We note that one of the greatest obstacles to efficient administration of private sector real-time payments efforts is the Federal Reserve’s inability to operate Fedwire on a 24/365 basis; because Fedwire is used by banks to satisfy their real-time payments system funding requirements, this creates potential liquidity and operational risks. If the Federal Reserve wishes to enable real-time payments, we would urge it first to modernize and upgrade its existing Fedwire system.