



Dear CBAI Member,

For the past several years, the Federal Reserve Board has engaged with payment industry stakeholders focused on how to improve the speed, safety and efficiency of the U.S. payment and settlement system. Recognizing that discriminatory rules and unfair access to a faster payment system posed significant threats to community banks, last year, the CBSC Board of Directors formed the CBSC Payment Task Force to research faster payment issues and advise the board accordingly.

Since its formation, the CBSC Payment Task Force has been actively engaged in the process. We have met with payment industry experts, leaders and regulators to get up to speed on the various proposals that have been submitted thus far. In September, we submitted a comment letter to various key Fed officials in order to encourage them to cement the Fed's role as an operator in a faster payment system. Last month, members of the task force attended Fed Faster Payment Town Hall Meetings in Chicago, IL; Cedar Rapids, IA; St. Louis, MO; and Washington DC. Next month, the task force will be meeting with representatives from The Clearinghouse, Zelle, NACHA and FiServ to discuss their faster payment and settlement solutions and the impact they will ultimately have on our community banks.

We need your help.

The Federal Reserve Board is seeking public comment on potential actions to facilitate real-time interbank settlement of faster (real-time) payments.

We ask that all CBAI members respond to specific questions in the Fed's Request For [Comments](#) before the December 14, 2018, deadline.

You may submit comments, identified by Docket No. OP-1625, by any of the following methods:

Agency Website: <http://www.federalreserve.gov>. Follow the instructions for submitting comments at <http://www.federalreserve.gov/?generalinfo/?foia/?ProposedRegs.cfm>.

If you prefer, here is a short-cut to the Electronic Comment Form https://www.federalreserve.gov/secure/forms/ElectronicCommentForm.aspx?doc_id=OP%2D1625&doc_ver=1.

By Email to: regs.comments@federalreserve.gov. Include docket number in the subject line of the message.

By FAX to: (202) 452-3819 or (202) 452-3102.

By Mail: Ann Misback, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW, Washington, DC 20551. Given potential delays caused by security concerns, mail delivery is not recommended.

In its request for comments, the Fed provides an in-depth tutorial on faster payments. At its conclusion, the Fed poses more than 50 questions that it is asking bankers to answer in their comments. While all of these questions, and many more, need to be addressed, and bankers are always welcome to answer them all, with the help of our business partner, SHAZAM, we have focused on just a few critical issues and CBAI's response.

Federal Reserve Questions 2 and 4

Question 2 - Should the Reserve Banks develop a 24x7x365 Real Time Gross Settlement (RTGS) service? Why or why not?

Question 4 - Should the Federal Reserve develop a liquidity management tool that would enable transfers between Federal Reserve accounts on a 24x7x365 basis to support services for real-time interbank settlement of faster payments, whether those services are provided by the private sector or the Reserve Banks? Why or why not?

CBAI Response

Yes. CBAI agrees the Fed should develop a system for 24x7x365 settlement of payments. For community banks this type of system would mean equal and fair access to real-time payments and real-time settlement, offering choice and flexibility in the faster payments ecosystem. The Federal Reserve providing RTGS is absolutely essential to the future of community banking.

Why? If the Fed does not provide this service, community banks will be forced to provide their information to be serviced by solution providers owned and controlled by the largest financial institutions in the country. When faster payments are concentrated through a single solution provider, community banks will lose choice and innovation will be hampered.

A community bank's ability to efficiently and effectively manage an RTGS system would require a liquidity management tool. We applaud the Fed for recognizing an important element of this service. The result will be better service to accountholders and businesses.

Federal Reserve Question 3f-i

Is a proxy database or directory that allows faster payment services to route end-user payments using the recipient's alias, such as email address or phone number, rather than their bank routing and account information, needed for a 24x7x365 RTGS settlement service?

How should such a database be provided to best facilitate nationwide adoption? Who should provide this service?

CBAI Response

Yes. CBAI strongly believes the Fed must provide an open and interoperable directory service (database) that payment and financial service providers and financial institutions can access to determine how to route a faster payment. This directory would allow payments to perform as text messaging does now. Consider how individuals can send and receive text messages, regardless of the carriers used on either end of the text message.

If the Fed does not provide a directory service in which all faster payment solutions can integrate, the ability to determine how to access consumer accounts will be controlled by a single solution provider.

Community banks will lose choice and innovation will be hampered.

We believe such a directory is vital for establishing interoperability. It would provide all institutions access to real-time payments — regardless of their solution — further encouraging the adoption of real-time payments among all financial institutions.

Federal Reserve Question 3g

How critical is interoperability between RTGS services for faster payments to achieving ubiquity?

CBAI Response

The question of interoperability is the linchpin for the kind of faster payments ecosystem the Fed envisions.

Currently, there are multiple P2P payment solutions in the marketplace and none are interoperable. To illustrate, P2P solutions like SHAZAM BOLT\$ are often denied routing P2P transactions to DDA accounts at large financial institutions. This effectively requires that your customers use the large institution's P2P solution to meet their payment needs. It's critical the Fed understand that the faster payments system, as it currently exists, is fragmented. This fragmentation restricts access, limits competition and creates a burden for community institutions. As a result of this fragmentation, many community institutions, in order to serve their customers and members, may be forced to sign up for an option, like Zelle® which is owned by the nation's largest banks. Obviously, this relationship presents tremendous risk to the community banks, as taking this step will provide customer information to a consortium of the country's largest institutions. We don't believe it's acceptable for community banks to be forced to "default" to using these applications and technologies to meet the needs of their customers. Community banks will lose choice and innovation will be hampered. Some would argue that allowing, or even promoting, this relationship is advantageous as it helps achieve ubiquity. However, if ubiquity is achieved by forcing community institutions to use the large bank consortiums then the public's payment needs are not properly being served. Only ubiquity obtained through multiple service provider interoperability properly serves the public's payment needs.

It may be difficult to keep track of all the developments with the faster payment system, and it may seem like it's implementation is down the road and the issues will be solved by someone else. However, your bank's customers are in play. So it is critical that you be informed and take action, today.

If you have any questions or desire more information, please contact Mike Kelley, CBSC President, 217-529-2265, or via email at mikek@cba.com. Thank you.

Best,

Mark Field, Chairman
CBSC Payments Committee
President & Chairman
Liberty Bank