September 23, 2020

Ann Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

regs.comments@federalreserve.gov

Re: Docket Number: OP–1670 - Service Details on Federal Reserve Actions to Support Interbank Settlement of Instant Payments

Dear Ms. Misback:

The Credit Union National Association (CUNA) is providing comments to the Board of Governors of the Federal Reserve System (Federal Reserve or Board) in response to the Service Details on Federal Reserve Actions to Support Interbank Settlement of Instant Payments service announcement published in the Federal Register. CUNA represents America’s credit unions and their more than 120 million members.

CUNA appreciates the Board and Board staff’s diligence in making the decisive decision to develop the FedNow payments system. Developing and implementing this real-time payments network is necessary as the market needs the Federal Reserve to develop this new payments rail to address a void that the private sector cannot fill with the footprint and trust of the Federal Reserve. We also appreciate the Board providing this update as it is important for the market.

Timeline for Deployment

A critical factor impacting FedNow’s ultimate success- and that of the US payments system overall- is time to market. The COVID-19 pandemic has accelerated an already rapid shift toward digital channels and commerce, and has demonstrated a need for real-time payments and the products and services it will enable. Furthermore, the appetite for real-time solutions has grown, with use cases likely to proliferate. It is therefore more critical than ever for the Board to meet its stated commitment to launch FedNow by 2023 or 2024, or sooner if practicable. CUNA strongly encourages working toward the earliest end of that range, while recognizing the complexity of the endeavor. This will likely
translate to a staged release approach with a “minimum viable product” at initial introduction. At the same time, it is essential that the initial limited feature set is secure and reliable, to safeguard market confidence in the system.

Interoperability

Interoperability will be essential to achieving ubiquity and the long-term success of a real-time payments system in the United States, just as it has been necessary for the efficient functioning of the U.S. automated clearing house (ACH) network for decades. While recognizing that one party cannot achieve interoperability without cooperation, we strongly encourage the Federal Reserve to make every effort to engage with The Clearing House to create a roadmap for mutually beneficial coexistence.

It is important to note, however, that the pursuit of interoperability should not be allowed to delay FedNow’s market launch. In fact, the opportunity for credit unions and community banks to “cast their vote” for an in-market FedNow service— as many financial institutions have expressed a strong intention to do— could serve as the necessary catalyst to foster interoperability.

Access to FedNow

The Federal Register notice indicated that the Board is only allowing depository institutions access to FedNow. CUNA strongly supports this decision. For decades, the backbone of the U.S. payments system has been financial institutions, their partners and key service providers. Although there are many innovations in payments coming from depository institutions and non-depository providers, access to the Federal Reserve’s payments networks should be limited to those business that are regulated and examined. For obvious reasons, regulated entities are in the best position to ensure the integrity of operation of FedNow through demonstrated compliance with strict laws and regulations designed to protect the payments systems and the financial services sector in its entirety. Making wholesale changes to this scheme could introduce unnecessary risks to a system that protects Americans.

We also support the plan for nonbank access to be through depository institutions. This model works for the FedWire and the ACH payments system and represents a good model moving forward for FedNow. We do think that non-depository institution partners should be subject to regulatory oversight for the products and services that touch FedNow. These partners should not be able to use a financial institution to shield them from regulatory oversight for actions that could produce risk to the FedNow system and to other users of the payment network.

Service Providers

The Federal Reserve should work closely with service providers throughout the development process to ensure they are able to develop products to help credit unions leverage FedNow. Community financial institutions such as credit unions and community banks, although a robust and integral part of the financial services sector, often do not have resources to develop systems in-house to utilize FedNow. Community financial institutions will rely on service providers for FedNow connectivity for many services and products. For this reason, it is critical that key service providers are integrated into the development of FedNow at all points in the development process. This is closely related to our

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timeline point above; if service providers are not fully prepared to support FedNow at its launch date, then the realization of actual volume will be pushed out several months (if not years) further. It is incumbent upon the credit union community to convey to its service providers the importance of this initiative and strongly encourage them to work closely with the Federal Reserve to enable such services at the time of launch.

Conclusion

CUNA supports the Board’s ongoing development of FedNow, and credit unions look forward to working with Board staff as the network is developed. We encourage the Board to use all the resources at its disposal to speed up development of FedNow so that new products and services can be brought to the market.

Should you have any questions about CUNA’s comments, please feel free to contact me at 202.508.6705.

Sincerely,

[Signature]

Lance Noggle
Senior Director of Advocacy and Counsel
& Senior Counsel for Payments and Cybersecurity