



December 14, 2018

Via Electronic Submission: regs.comments@federalreserve.gov

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

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

Dear Ms. Misback:

Santander Holdings USA, Inc. (“SHUSA”) appreciates the opportunity to provide comments to the Board of Governors of the Federal Reserve System (“Board”) in response to its request for comment (“FR Notice”) about potential actions that the Federal Reserve could take to promote ubiquitous, safe, fast and efficient payments in the U.S.

Boston-based SHUSA is a wholly-owned subsidiary of Banco Santander, S.A. SHUSA is the intermediate holding company for Santander’s U.S. businesses, including six financial companies with more than 17,500 employees, 5.2 million customers and assets of over \$135 billion. These businesses include Santander Bank, N.A., a leading retail and commercial bank; Santander Consumer USA Holdings, Inc., a national auto finance company; Banco Santander International of Miami; Banco Santander Puerto Rico; and Santander Investment Securities Inc. of New York.

The Clearing House (“TCH”) and its owner banks, including SHUSA, have made significant investments to design, build, and implement the Real-Time Payments (“RTP”) network – a private sector network for effectuating faster payments anywhere in the U.S. on a 24/7 basis. RTP was developed through industry-wide engagement, and is open to all U.S. depository institutions to use as a platform for payments innovation – including leveraging the network’s capabilities to create or enhance digital services for their corporate and retail customers.

As both an owner and a forward-looking and innovative U.S. financial institution dedicated to its customers and the overall competitiveness of the U.S. banking system, SHUSA has a direct interest in the success of the RTP network.

As part of its overall mission, the Federal Reserve has a fundamental interest in ensuring there is a safe and robust U.S. payment system, including a settlement infrastructure on which the private sector can provide innovative faster payment services that serve the broad public interest.¹ SHUSA respectfully submits for consideration the following comments and recommendations in response to the FR notice. SHUSA believes these comments and recommendations are consistent with the

¹ Docket No. OP-1625; Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments, p.1

Federal Reserve's overall mission and will continue to leverage effectively its unique and essential role in promoting real-time interbank settlement of faster payments.

Comments and Recommendations

SHUSA supports the Board's objective to promote faster, safe, ubiquitous payments that can be made 24/7 anywhere in the U.S. SHUSA also believes the Board appropriately used its convening power in bringing together the Faster Payments Task Force ("FPTF"), which was a driving force behind the progress made to date by the private sector.

In the FR Notice, the Board requests feedback on two potential actions that may support the further development of faster payments in the United States while increasing the resiliency and security of services offered to the public:

- 1) the creation of 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, regardless of whether those services are provided by the private sector or the Federal Reserve Banks; and,
- 2) the development of a service for real-time interbank settlement of faster payments 24 hours a day, seven days a week, 365 days a year (24x7x365).

1. Liquidity Management Tool

SHUSA supports the Federal Reserve's proposal to develop a liquidity management tool for weekend and holiday periods, preferably as an expansion of Fedwire Funds Service operating hours. Such a tool could be helpful in freeing the trapped liquidity in a Federal Reserve account for use by bank participants in a faster payment network during a weekend or a public holiday.

As background, the RTP network was developed as a means of transferring available liquidity on the RTP ledger during off hours and encourages RTP participants to make liquidity arrangements that could be triggered if such a need arose through the use of the mechanism developed.

Although this approach to managing liquidity on the RTP network may suffice, it still relies on the existence of some level of excess liquidity on the RTP network and a willingness to lend such liquidity. But on weekends and public holidays, the back-up lines could be unnecessary if trapped liquidity in a Federal Reserve account could be "freed up" so that the balances could fund payment activities. Importantly, performing this kind of traditional central banking function could also help the U.S. to achieve a 24/7 faster payments system in the short term.

2. Real-Time Interbank Settlement Service

SHUSA believes that the Reserve Bank development of an alternate public sector payment service at this time could hinder the FPTF goal of a ubiquitous, nationwide payment system that would provide faster payments on a 24/7 basis.

The Federal Reserve, through its sponsorship of FPTF, established the vision, collaborative framework, and criteria that made possible the successful development and deployment of the private sector's RTP network. Evidence of this can be seen in adaptations made to the RTP

network's features and design, which are strongly aligned with the ideal faster payment service envisioned by the FPTF.

This evolutionary and collaborative process helped to produce an RTP network which could meet the needs and expectations of all segments of the faster payments ecosystem by delivering 24/7/365 clearing and real-time settlement, along with extensive messaging and data-handling features. Financial institutions are already starting to leverage RTP to deliver innovative products and services to add speed, safety, and efficiencies to financial transactions while also improving efficiency for U.S. commerce.

The RTP network launched November 2017 and is still in a critical "start-up phase," with plans to grow significantly over the course of the coming 12 months and a credible plan for reaching near ubiquity by the end of 2020. However, these plans, which are dependent on the continued speedy adoption of the RTP network by financial institutions, could be slowed considerably by speculation that the Federal Reserve will develop its own alternate system for faster payments.

Furthermore, Federal Reserve development of a public sector service for real-time interbank settlement of faster payment would require it to address a host of development and deployment challenges including accessibility, safety, resiliency, efficiency, and the need to be interoperable and fully functionally aligned with the RTP network and implemented by 2020. While the Board undoubtedly has contemplated such challenges and likely has begun to consider potential strategies to address them over time, SHUSA believes it is fair to ask whether such a substantial investment of critical Federal Reserve time and resources is necessary given the existing RTP network.

Lastly, the Federal Reserve's long-standing policy regarding payment systems states the Federal Reserve will not offer a new payments product unless the private sector "cannot be expected to provide [the service] with reasonable effectiveness, scope, and equity."² SHUSA respectfully asks the Board to adhere to this policy unless or until the Federal Reserve determines the RTP network no longer meets this criteria.

For all of these reasons, SHUSA believes the Federal Reserve should focus its efforts on encouraging private sector solutions rather than pursuing its own real-time payments market at this time. However, SHUSA would be open to revisiting this proposal in the future if it is determined that the above criteria have not been met.

Conclusion

SHUSA believes the RTP network presents the best opportunity, at this time, to realize the goal of a ubiquitous, safe, fast and efficient payments in the U.S. However, the RTP network's success is predicated on the Federal Reserve's continuing commitment to promoting marketplace adoption of innovative payment solutions – particularly when those solutions are private sector funded and strongly aligned with the ideal faster payment service envisioned by the FPTF.

For these reasons, SHUSA looks forward to collaborating with the Federal Reserve, TCH, and banking industry peers to promote, on behalf of its customers, the continued adoption of the RTP

² Board of Governors of the Federal Reserve System, "The Federal Reserve in the Payments System," Issued 1984; revised 1990.

network payment system in the critical months ahead. Please do not hesitate to contact me at (617) 316-3943.

Sincerely,

A handwritten signature in blue ink, appearing to read "Scott Powell". The signature is fluid and cursive, with a large initial "S" and "P".

Scott Powell
Chief Executive Officer
Santander US