CGI Response to Docket OP-1625

Although the Fed implementing an RTGS and liquidity management tool for interbank settlement of faster payments is a very sensible solution to the issues described in the Federal Register Notice, there are broader issues specific to the US market that need to be addressed before proceeding. Absent of a mandate, which has proved to be essential in other global real-time schemes, the Fed must weigh the benefits of quickly trying to reach to ubiquity (while not knowing if the cost and level of effort will pay off) versus choosing to step back and place its support in the US private market and regulating that effort. Although the level of effort will be significant, we feel the Fed implementing an RTGS and liquidity management tool for interbank settlement can be a good thing if the Fed is able to reach the ubiquity goals it intends.

We recommend that the Fed look to other past and current payments infrastructure business architectures and implementations to not only adopt best practice and avoid others' pitfalls but also to address the mandate issue. The European Central Bank's TIPS scheme is of particular interest given that there are numerous, potentially competing, faster payment clearing schemes in operation, or planned, in the Eurozone. Also the ECB has introduced liquidity management tools to link faster payment settlement with their interbank settlement RTGS, TARGET2, we believe that while ECB allows commercial banks direct access to TIPS, the Fed should not allow this type of connectivity if they proceed with developing their own RTGS. The Fed RTGS should be a mechanism for settling 24x7x365 and originating from other faster payment schemes while avoiding being a clearing provider of faster payments. CGI has experience with a number of settlement regimes around the world and would be happy to explore with the Fed in more detail how the current European systems compare and contrast with the Fed's proposals. This could help articulate the difference between a business case versus a compliance case which has proven to be necessary in other global markets.

Other considerations are US market-specific and the business cases that can be altered based on who is involved in the conversation. Cost will always play a role as the business end user will not necessarily pay additional fees for such new services and often expects not to be charged extra. A key decision to be made before the Fed's proposals are progressed is outlining how the settlement services will be funded and paid for. Adoption timeframes and fragmenting of the market are also very important considerations. Getting all banks up and running quickly will be critical to success.

CGI Responses to Questions in Docket:

1. Is RTGS the appropriate strategic foundation for interbank settlement of faster payments? Why or why not? *Yes. Technology now makes this approach feasible. It is a sound approach to reduce payments settlement risk in central market infrastructure(s).*

2. Should the Reserve Banks develop a 24x7x365 RTGS settlement service? Why or why not? *Yes. There should be one and only one of these for a given currency. However this should be a settlement service <u>not a clearing service,</u> e.g., it is available to other clearing systems (of whatever type and ownership) but NOT to commercial banks or similar participants. The goal of a settlement service that other clearing channels could connect to is to drive ubiquity. A Fed clearing service would simply create greater confusion and competition and further delay the adoption of faster payments in the US, a course of action that is in direct contradiction with the Fed's wishes.*

3. If the Reserve Banks develop a 24x7x365 RTGS settlement service,

a. Will there be sufficient demand for faster payments in the United States in the next ten years to support the development of a 24x7x365 RTGS settlement service? What will be the sources of demand? What types of transactions are most likely to generate demand for faster payments? *Yes due to (a) P2P transfers (b) card replacement transactions (c) overlay services such as request to pay and (d) commercial payments (AP/AR and payroll). Also, cash and check replacements (which could slot under P2P other than at point of sale) are other viable alternatives. Cash remains the leading tender type at point of sale in the US – the costs of handling and transporting cash are unnecessary in today's digital world. Longer term, there need to be considerations made about driving greater consumer access as this may be a way to reach (and serve) the unbanked and underbanked.*

b. What adjustments would the financial services industry and its customers be required to make to operate in a 24x7x365 settlement environment? Are these adjustments incremental or substantial? What would be the time frame required to make these adjustments? Are the costs of adjustment and potential disruption outweighed by the benefits of creating a 24x7x365 RTGS settlement service? Why or why not? *The industry would have to make large scale adjustments. However these sort of changes are inevitable in the banking market as a whole if it is remain competitive. Furthermore these changes would be optional in that a bank would not be mandated to join an RTGS settlement service but if it didn't then it might suffer competitive disadvantage. The costs are outweighed by the benefits – all evidence points to the fact that consumers and commercial customers alike are expecting real-time 24*7 payments capability and settlement safety. Specific adjustments include a 24x7x365 support team, including (and perhaps most importantly) around the clock fraud and AML capabilities.*

c. What is the ideal timeline for implementing a 24x7x365 RTGS settlement service? Would any potential timeline be too late from an industry adoption perspective? Would Federal Reserve action in faster payment settlement hasten or inhibit financial services industry adoption of faster payment services? Please explain. *As soon as possible. The US is behind the rest of the world on this matter. If the US delays, then payments clearing will continue to be fragmented in the country with the consequences of higher costs for all and continuing inefficiencies. Likewise, the confusion sown by a lack of clarity over what the Fed wants to do has brought a number of real-time projects to a halt, so deciding and announcing a course of action is of utmost importance.*

d. What adjustments (for example, accounting, operations, and agreements) would banks and bank customers be required to make under a seven-day accounting regime where Reserve Banks record and report end-of-day balances for each calendar day during which payment activity occurs, including weekends and holidays? What time frame would be required to these changes? Would banks want the option to defer receipt of such information for nonbusiness days to the next business day? If necessary changes by banks represent a significant constraint to timely adoption of seven-day accounting for a 24x7x365 RTGS settlement service, are there alternative accounting or operational solutions that banks could implement? *Operational and IT consequences.*

e. What incremental operational burden would banks face if a 24x7x365 RTGS settlement service were designed using accounts separate from banks' master accounts? How would the treatment of balances in separate accounts (for example, ability to earn interest and satisfy reserve balance requirements) affect demand for faster payment settlement?

f. Regarding auxiliary services or other service options,

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? *Not needed if its settlement only and being a settlement service could reduce time to market, as well as costs for adoption if new rails do not need to be built and connected to.*

ii. Are fraud prevention services that provide tools to detect fraudulent transfers needed for a 24x7x365 RTGS settlement service? How should such tools be provided? Who should provide them? *Some form of fraud monitoring could be complementary but it would not be there to replace commercial banks' responsibilities, as the Federal Reserve does not know anything about the underlying parties to the transactions.*

iii. How important are these auxiliary services for adoption of faster payment settlement services by the financial services industry? How important are other service options such as transaction limits for risk management and offsetting mechanisms to conserve liquidity? Are there other auxiliary services or service options that are needed for the settlement service to be adopted? *Only services which support efficiency in settlement – e.g., liquidity savings – yes; but something clearing related – no. On a side note, the focus on fraud, unless it includes money laundering, is overly narrow. Despite the claim that domestic transactions need not be reviewed, the immediate and irrevocable nature of real-time in general ensures that this infrastructure <u>will</u> be used for money laundering eventually, especially as limits rise.*

g. How critical is interoperability between RTGS services for faster payments to achieving ubiquity? *Important so that the true position of participants is known. Systems not connected would have to be limited in their overall settlement risk between participants.*

h. Could a 24x7x365 RTGS settlement service be used for purposes other than interbank settlement of retail faster payments? If so, for what other purposes could the service be used? Should its use be restricted and, if so, how? *Yes, as a fallback for other systemically important payment systems for instance.*

i. Are there specific areas, such as liquidity management, interoperability, accounting processes, or payment routing, for which stakeholders believe the Board should establish joint Federal Reserve and industry teams to identify approaches for implementation of a 24x7x365 RTGS settlement service? *Yes. This would be a way of improving communication, obtaining consensus, and getting the best market solution for the US. Additionally, this is exactly the type of service layer that will drive some of the innovation the Fed has been looking for, while also creating higher margin services that can both increase customer stickiness and defray the cost of RTGS adoption.*

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? *Yes. It is a sound approach to reduce payments settlement risk in central market infrastructure(s) and is now considered to be best practice. This type of safety measure is essential, especially for newer, less sophisticated entrants into the faster payments world.*

5. If the Reserve Banks develop a liquidity management tool,

a. What type of tool would be preferable and why?

i. A tool that requires a bank to originate a transfer from one account to another

ii. A tool that allows an agent to originate a transfer on behalf of one or more banks

iii. A tool that allows an automatic transfer of balances (or “sweep”) based on pre-established thresholds and limits

iv. A combination of the above *Yes, ideally paired with a set of visualization and analytical tools to enable participants to measure, alert, and forecast accordingly.*

v. An alternative approach

b. Would a liquidity management tool need to be available 24x7x365, or alternatively, during certain defined hours on weekends and holidays? During what hours should a liquidity management tool be available? *Could be available less than 24*7*365 but best if it was. If the rail is available, the liquidity management services should also be available.*

c. Could a liquidity management tool be used for purposes other than to support real-time settlement of retail faster payments? If so, for what other purposes could the tool be used? Should its use be restricted and, if so, how? *Yes, it could – for settlement of other instruments or items of value. It could also be used for improved cash management at the bank and corporate levels, assuming (in the latter case) that the service could be delivered at the corporate level.*

6. Should a 24x7x365 RTGS settlement service and liquidity management tool be developed in tandem or should the Federal Reserve pursue only one, or neither, of these initiatives? Why? *In tandem – easier to do from a technology perspective, although other features could be added later.*

7. If the Federal Reserve pursues one or both of these actions, do they help achieve ubiquitous, nationwide access to safe and efficient faster payments in the long run? If so, which of the potential actions, or both, and in what ways? *Yes. Reduces settlement risk, drives innovation.*

8. What other approaches, not explicitly considered in this notice, might help achieve the broader goals of ubiquitous, nationwide access to faster payments in the United States?

9. Beyond the provision of payment and settlement services, are there other actions, under its existing authority, the Federal Reserve should consider that might help its broader goals with respect to the U.S. payment system?