



July 09, 2021

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-1747, Proposed guidelines to evaluate requests for accounts and services at Federal Reserve Banks.

Dear Ms. Misback:

The Merchant Advisory Group (MAG) appreciates the opportunity to comment on the Federal Reserve Board ("Fed") proposed guidelines for Account Access Guidelines in Docket No. OP-1747. We appreciate the Board of Governors inclusion of all the parts of the payments system in the ability to comment, as many of the decisions made by the Board of Governors have an impact not only on the banks they regulate but also on other stakeholders who participate in the ecosystem by providing end-users solutions for making payments which are settled through a Federal Reserve Master Account.

Founded by a small, visionary group of merchants in the payments field dedicated to driving positive change in payments through multi-stakeholder collaboration in 2008, the MAG represents 165 of the largest U.S. merchants who account for over \$4.8 Trillion in annual sales at over 580,000 locations across the U.S. and online. Roughly \$3.5 Trillion of those sales and over 100 billion card payments are electronic, which represents approximately 62%¹ of total U.S. card volume. MAG members employ over 14 million associates.

The MAG has been an active participant in the payments system by engaging with the Fed on many of their efforts including faster payments and Reg II. Merchants believe in order for the public to be best served, there must be an active discussion between all parties who help in the movement of money. Our mission is to drive positive change and innovation in the payments industry that serves the merchants' interests through collaboration, education and advocacy.

¹ Source of Total U.S. card volumes: *Federal Reserve Payments Study 2019*

We agree with the many of the recommendations made by the Board of Governors, especially around the need for a structure which would provide consistency among the different Federal Reserve Banks. Protecting the system to ensure risk is appropriately addressed should be a concern for all those who participate in the system. As such, we believe guidelines which are developed should protect the system from undue risk while allowing for innovation and competition to thrive.

While there are others in the payments system better situated to address some of the questions posed by the Board of Governors, we would like to focus on question 3: Do the proposed account access guidelines support responsible financial innovation?

In today's economy the way a Federal Reserve master account may be used varies greatly, as does the risk imposed to the system. The overall comments seem to point towards the requirement that a Master Account must be protected from all possible risk regardless of the intended use of the account.

We believe this approach is more of a view in the past than the future. Today, there are many specific usages for a Federal Reserve master account and writing regulation to cover all usages for all accounts is outdated. For example, as the Federal Reserve advances the use of real time payments and central bank digital currencies, counterparty risk and fraud are greatly minimized. With the reduction in risk, more providers should have access to a Federal Reserve Master Account by the creation of rules based on usage of the account versus a one size fits all approach.

To be clear, this is not to suggest those entities who are granted an account would not be subject to any regulatory requirements but instead subject to those requirements which mitigate risk for the specific usage. For example, the comments regarding proper Know Your Customer and Anti-money Laundering programs would seem appropriate for any holder of a Federal Reserve Master Account. While those centered on appropriate capital reserves and fraud may look different due to the different risk profile.

Competition and innovation will be stifled without having additional institutions having access or a direct relationship to a Master Account, particularly if a strategy based on risk is introduced to the system. Today, traditional financial institutions are incented to maintain the status quo, especially when it comes to consumer to business transactions. Early Warning and The Clearing House made this evident by their recent entry into real time payments, addressing select transactions while not introducing consumer to business payments.

While an overwhelming majority of transactions by count are consumer to business, Zelle and The Clearing House instead choose to focus on either person to person or business to business payments. These are more costly current financial institutions or these same institutions are losing market share to an innovator in the space. Both of the systems created by Zelle and The Clearing House could be easily adopted to work in the consumer to business space but that is not in the best interest of the large financial institutions which own them.

This approach is concerning as the United States remains one of the highest cost markets in the world for payments. If those institutions which are looking to create competition remain required to use a traditional financial institution for settlement, those trying to create competition will be subjected to a cost structure which will consider the loss of profit instead of a focus on a reasonable profit for settlement.

We strongly urge The Board of Governors to consider an approach which will allow for as many innovators as possible to have a direct relationship with the Master Account by providing different levels of regulatory oversight based on the way in which the account will be allowed to be used. This would ensure the greatest public welfare by creating an increased competitive and transparent landscape.

Thank you for exploring account access guidelines. We look forward to continuing our collaborative work on this important topic in the payments system.