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*Via electronic submission*

September 10, 2020

Margaret McCloskey Shanks  
Deputy Secretary of the Board  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue, NW  
Washington, DC 20551

**RE: [Docket Number: OP-1670] Service Details on Federal Reserve Actions to Support Interbank Settlement of Instant Federal Reserve Actions to Support Interbank Settlement of Faster Payments**

Dear Ms. Shanks:

The Independent Community Bankers of America (“ICBA”)<sup>1</sup> is pleased to submit comments regarding the Federal Reserve Board’s (“Board”) announcement of the initial phase of core features for the FedNow<sup>SM</sup> Service (“FedNow” or “Service”), a new interbank 24x7x365 real-time gross settlement service to support instant payments in the United States.

ICBA applauds the Board’s decision to develop FedNow in support of instant payments. ICBA and the nation’s community banks have a long history of support for the Federal Reserve’s role in instant payments, as demonstrated in communications with policymakers, op-eds, ads and hundreds of ICBA and community banker comment letters encouraging the Federal Reserve to develop a real-time gross settlement system (“RTGS”).

A Federal Reserve-operated RTGS is consistent with the Fed’s existing operational role in providing payments services to nearly 11,000 financial institutions of different sizes and charter types. The introduction of FedNow allows the Federal Reserve to further advance its mission of providing the nation with a modern, safe, and effective financial system.

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<sup>1</sup> *The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. With more than 50,000 locations nationwide, community banks constitute 99 percent of all banks, employ nearly 750,000 Americans and are the only physical banking presence in one in three U.S. counties. Holding more than \$5 trillion in assets, nearly \$4 trillion in deposits, and more than \$3.4 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers’ dreams in communities throughout America. ICBA is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education, and high-quality products and services.*

The FedNow Service will ensure universal access to instant payments for financial institutions and their customers, and will provide stability, competition, and resiliency through redundancy by introducing another instant payments provider to the U.S. market. The Federal Reserve's involvement will preserve choice in the selection of instant payments providers. ICBA views this step as a crucial milestone and expects FedNow will be a catalyst for innovation. We are confident that the FedNow Service will provide an array of benefits for community banks nationwide, and these advantages will extend to the consumers and businesses they serve.

ICBA strongly supports the Board's decision to limit direct access to the FedNow Service to banks eligible to hold accounts at the Reserve Banks under applicable federal statutes and Federal Reserve rules, policies, and procedures. Restricting FedNow direct access to fully chartered and regulated financial institutions is consistent with established Federal Reserve processes for other payments systems, including ACH, checks and wire transfer. This safeguard ensures that instant payments are secure, while mitigating systemic risks and serious unintended consequences. Granting access to non-banks, particularly companies that harvest, aggregate, and resell customer data, could harm America's payments systems by introducing systemic risks.

### **FedNow Timeline and Industry Readiness**

In the Federal Register Notice, the Board expresses its commitment to introducing the FedNow Service by 2023 or 2024. While ICBA acknowledges the complexity and enormity of effort to create a new instant payment service, we also recognize the pressure resulting from the current environment where a private sector real-time network is already live and expanding its reach. Although a few community banks are participating in the private sector real-time network, many community banks are eagerly waiting for the FedNow Service to offer instant payments. ICBA recommends proceeding to market with the Service as soon as practically possible before the 2023 or 2024 implementation timeframe.

Other factors contributing to urgency in bringing FedNow to market include industry and policymaker focus on solutions that align with the accelerating digital transformation resulting from the pandemic, alternative solutions promising faster transaction processing speeds, and growing attention on pressing societal issues, such as expanding access of financial services to underserved markets. ICBA believes bringing FedNow to market expeditiously will foster innovation to help address these issues. We encourage the Board to continue to study deployments of instant payments services around the globe and apply lessons that can be derived from those experiences to expedite the FedNow timeline.

ICBA commends the Federal Reserve for deploying a phased approach to implementation. This approach balances speed to market with the availability of instant payments functionality. ICBA believes this model will enable community banks to gain competitive market parity with banks who are already using the private-sector real-time payments network. The announced core functionality will serve as an excellent foundation for the Service; and provides flexibility for expanded functionality in the future.

In discussions with ICBA members, we learned that many banks plan to offer both sending and receiving capabilities when the Service becomes available, as these leading bankers believe having both capabilities is necessary for remaining competitive. Some banks may initially take a wait-and-see approach to assess the market appetite for instant payments, evaluate fraud risk and deploy mitigation tactics. ICBA supports the FedNow option of enrolling banks as a “receive-only” participant, as it offers banks a phased approach of entry and allows them to gradually gain experience with instant payments.

ICBA recommends accelerating the cadence of the Federal Reserve’s industry engagement initiatives to provide essential information about FedNow details and progress. Many community banks are keen to begin incorporating plans for the FedNow Service into their payments strategies and require clarifying details, specialized guidance, and tools for the planning phases.

There are three paths to driving and facilitating adoption that require immediate attention. First, for many community banks, their core processor will be the technology provider that enables connectivity to the FedNow Service. Core processors play a vital role in community banks’ long-term technical and business objectives, and ultimately their continued success. The Federal Reserve should provide FedNow technical requirements to core processors and other relevant technology providers as early as possible to ensure that integration, testing and certification is completed prior to the launch of FedNow, and these providers are ready to meet market demand for adoption of the Service. Prioritizing collaboration with technology providers serving as connection points helps to ensure that no market segment is competitively disadvantaged because of delayed technology partner readiness.

Secondly, banks will play a critical enabling role in onboarding large numbers of consumers and business customers. Alignment of processes with the 24/7/365 environment, access to complementary solutions where FedNow is integrated as a payment option, staff training and availability of marketing materials must occur in advance of FedNow’s launch date to meet the demand for convenient bank-based instant payment services. To ensure that the design of the Service, the associated processes, and network rules consider the unique needs of community banks, ICBA urges the Federal Reserve to include a diverse selection of community banks in the FedNow pilot programs.

Lastly, significant educational efforts will be required to stimulate consumer and small business interest in FedNow and promote understanding of the advantages and security of instant payments. Execution of a well-defined go-to-market strategy and prompt delivery of educational and awareness resources to stakeholders across the payments ecosystem will help spur adoption. ICBA encourages the Federal Reserve to dedicate sufficient resources and effort to these efforts now, including continued collaboration with the U.S. Faster Payments Council.

## **Core Features of the FedNow Service**

The FedNow Service, once operational, will process instant, payment-by-payment, final settlement of interbank obligations through debits and credits to banks' balances in accounts at the Reserve Banks. ICBA supports the announced initial features of the FedNow Service, which will process individual domestic payments continuously, 24 hours a day, 7 days a week, 365 days a year.

### *Payment Flow, Message Types and Standards*

ICBA thanks the Board for articulating the payment flow and message types and urges the Board to provide additional clarifying information regarding the message specifications and transaction flows, including the request for return feature. Additionally, we support the use of ISO 20022, as it is the standard used by the private sector real-time payments network and potentially removes a barrier to interoperability. ICBA appreciates the efforts of the FedNow Community's ISO 20022 workgroup and recommends early dissemination of industry-wide communications and educational resources about ISO 20022.

To avoid the risk of incomplete or failed transactions being introduced into the FedNow Service, it will be important for participating sending banks to know in advance of the initiation of a transaction if the receiving bank is enrolled and live on the Service. The FedNow platform should include access to current data on the status of receiving banks before initiation of transactions.

### *Transaction Thresholds and Velocity Settings*

Most community banks prefer the FedNow transaction dollar limit to be competitively aligned with both the private sector real-time network and Same Day ACH. ICBA urges the Board to establish an initial threshold of \$100,000, which could be evaluated over time for consistency with market practices. Based on feedback from ICBA members, we believe most banks appreciate the ability to create their own thresholds and velocity settings, and many will establish lower customer limits initially as a risk control.

### *Fraud Prevention Tools*

Attracting and retaining Service users will be dependent upon the confidence of participants to manage risk and control fraud. ICBA commends the Board for including fraud prevention tools into the initial design of FedNow. The ability to set customer-specific dollar limits will be a valuable risk mitigation control for community banks.

Community banks will need real-time reporting to monitor potentially fraudulent activity. These tools should be tailored to the unique requirements of a 24x7x365 instant payment system. ICBA encourages the Board to consider the addition of behavioral and network-level Artificial Intelligence (AI) solutions to identify anomalies across the FedNow Service. Because of the pervasive nature of fraud and the history of fraudulent activity crossing from one payment rail to another, these fraud prevention systems should be extended to other payment systems operated by the Federal Reserve.

### Request-for-Payment Feature

While the Service supports credit-push transfers, the inclusion of a Request-for-Payment feature in the initial version of the Service will allow receivers of instant payments to request payments from the sender. ICBA agrees that the inclusion of Request-for-Payments capabilities may facilitate broader adoption of instant payments. This function would help small businesses manage their receivables and potentially improve cash flow and collections. However, few details on this feature were presented in the 2020 Notice and the recent Town Hall meeting of the FedNow Community. ICBA strongly urges the Board act expeditiously to provide the industry with specific details for the Request-for-Payment feature, including formats, message types, transaction flows and rules governing this feature. For the Request-for-Payment functionality to be useful, adoption by multiple stakeholders in the ecosystem is necessary to create a “network effect” of both sending and receiving points.

### Liquidity Management Tool

ICBA approves of the Board’s decision to provide a FedNow liquidity management tool (LMT) as an initial core feature of the Service. The LMT will be an important enabler for community banks and their funding agents in managing liquidity associated with instant payments. ICBA encourages the Federal Reserve to promptly disclose information about the FedNow LMT, including service terms, eligibility requirements, and enrollment processes. Participating financial institutions will need information addressing 24/7/365 transaction processing and settlement, and the impact of these changes to their financial reporting.

We believe that correspondent banks will play a critical role in aiding community banks with liquidity management. Therefore, we advise the Federal Reserve to engage with correspondent banks at the earliest possible juncture to assure their readiness to serve community banks when the Service is launched. The ability of participants in the FedNow Service and their agents to access and manage funding during weekends and holidays will be important in avoiding overdrafts of the bank’s master account at the Federal Reserve.

ICBA also supports the Board’s decision to make the LMT available to participants in private-sector instant payment services backed by joint accounts at a Reserve Bank by enabling transfers between the master accounts of such participants and their joint account.

### Fedwire Funds Service and the National Settlement Service

ICBA affirms that the adjustments to cutoff times for the Fedwire Funds Service and the National Settlement Service (NSS), along with the extension of the discount window to accommodate evening, weekends and holidays, is a vital step toward payments improvement and should be a priority for the Board. This will benefit both public and private sector RTGS systems as well as improve payment settlement services for ACH, checks and wire transfers. Because of the benefits for all payments types, ICBA encourages the Board to adopt an accelerated schedule by addressing these issues concurrently with development of the FedNow Service.

### Seven-Day Accounting

The Board proposes that the Reserve Banks implement a seven-day accounting regime as part of the FedNow Service implementation. An end-of-day balance would be calculated for each day of the week, including weekends and holidays. While ICBA appreciates the Board's flexibility in not requiring participating institutions to migrate to seven-day accounting, we encourage the FedNow staff to communicate with banks about the implications of using a five-day accounting regime when FedNow uses a seven-day system.

### **Interoperability**

For the complete value of instant payments to be realized by all players across the ecosystem, instant payment acceptance needs to be ubiquitous among financial institutions. The goal of ubiquitous adoption may not be achieved without interoperability between the FedNow Service and The Clearing House's RTP Network. Solving for real-time message exchange is an important milestone toward achieving early adoption, and later ubiquity, in instant payments.

While ICBA agrees with the Board that interoperability is an essential step in gaining ubiquity in real-time payments, we recognize that achieving real-time interoperability requires cooperation between both the public and private sector operators. ICBA urges both the Federal Reserve and The Clearing House to prioritize collaboration to attain interoperability. Both parties should aim for interoperability as soon as possible, but the Federal Reserve should not delay progress in bringing FedNow to market as the path to interoperability is explored.

### **Service Fees**

Adoption of FedNow among community banks will not occur if Service fees are cost prohibitive. ICBA applauds the Board's decision to establish transaction costs associated with mature volume estimates. This approach removes a potential barrier to adoption. Most community banks prefer a flat-fee structure that draws no distinction between high and low volume senders; additionally, most community banks favor an affordable fee structure that is transparent, predictable, and simple to reconcile.

### **Rules Development**

ICBA urges the Federal Reserve to develop rules for FedNow through the usual notice and comment process. Community banks prefer a process that is open, transparent, and considers industry feedback to mitigate potential unintentional consequences. Additionally, some community banks have expressed concerns regarding the burden and complexity of compliance with multiple rule sets if their bank is participating in both the FedNow Service and The Clearing House's RTP Network. Cooperative efforts to align rules requirements may be one step toward interoperability.

### **Prioritization of Future Service Enhancements**

ICBA commends the Federal Reserve for planning subsequent releases and features concurrently with development of the initial core services. While we support a phased implementation approach for the FedNow Service for speed to market, there are several features that would

improve functionality and enhance the value proposition of the Service. Developing application programming interfaces (APIs) should be a priority for the next release as it will expand access to FedNow and enhance the Service as a platform for innovation.

ICBA encourages the Federal Reserve to build its own directory, allowing banks to query the directory as part of the FedNow Service. A directory service would enable the exchange of a receiver's public identifier with an alias-based identifier in lieu of the receiver's full bank account information, strengthening the security and privacy of the accountholder's information. An alias-based directory is essential for customer adoption of priority use cases, such as person-to-person transactions (P2P) and should be incorporated in subsequent updates to FedNow.

Effective fraud prevention tools, which will be offered in the initial launch of the Service, are critical for cultivating confidence and trust in instant payments. ICBA advises the Federal Reserve to continually assess the needs of FedNow participants and to continue to invest in fraud prevention and risk mitigation capabilities to keep pace with an ever-changing threat environment.

### **Conclusion**

Immediate digital access has transformed customer expectations for commerce and payments. Customers expect to be able to send and receive money 365 days a year regardless of holidays, weekends, or bank operating hours. While the U.S. payments system has a long tradition of effectively supporting banks and their customers, the addition of a universally accessible instant payments service is essential for community banks to continue to meet the evolving needs of their customers.

ICBA looks forward to continued collaboration with the Federal Reserve as it develops and deploys FedNow as a platform for payments innovation. We believe FedNow will deliver substantial value to the payments ecosystem beyond transaction speed. Importantly, ICBA anticipates the introduction of FedNow as a notable achievement towards payments modernization which will help community banks remain competitive in serving their customers and communities.

ICBA appreciates the opportunity to comment on the FedNow Service Announcement. Please do not hesitate to contact me at [Deborah.Phillips@icba.org](mailto:Deborah.Phillips@icba.org) or 202-821-4311 with any questions regarding our comments.

Sincerely,

/s/

Deborah Matthews Phillips  
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*The Nation's Voice for Community Banks.*<sup>®</sup>

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