



THE VOICE OF FOOD RETAIL

Feeding Families  Enriching Lives

November 7, 2019

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

Re: Federal Reserve Actions To Support Interbank Settlement of Faster Payments; Notice and request for comment; Docket No. OP-1670

Dear Sir or Madam,

Food Marketing Institute (FMI) would like to thank the Board of Governors of the Federal Reserve System (FRB) for the opportunity to share our thoughts and comments on the proposed real-time gross settlement system service (FedNow) that was announced earlier this year. FMI was pleased to submit comments in strong support of the proposal late last year, and we were excited to learn that the Board has decided to move forward with a real-time gross settlement system. The Board's proposed "FedNow" system will be a welcome addition to the services already provided by the Board and will help drive both competition and innovation in the U.S. payments market.

The Food Marketing Institute (FMI) proudly advocates on behalf of the food retail industry. FMI's U.S. members operate nearly 40,000 retail food stores and 25,000 pharmacies, representing a combined annual sales volume of almost \$770 billion. Through programs in public affairs, food safety, research, education and industry relations, FMI offers resources and provides valuable benefits to more than 1,225 food retail and wholesale member companies in the United States and around the world. FMI membership covers the spectrum of diverse venues where food is sold, including single owner grocery stores, large multi-store supermarket chains and mixed retail stores. For more information, visit www.fmi.org and for information regarding the FMI foundation, visit www.fmifoundation.org.

While FMI's members are not financial institutions or payments processors, our members generate billions of payments every year both for consumer purchases and business to business payments. Our members have a vested interest in ensuring payments here in the U.S. move forward and advance similarly to the innovations, efficiencies and security we are seeing

globally. As the FRB is aware, there has been a long struggle on the “end-user” side of the payments marketplace where many products and services are introduced into the market without much, if any, consultation with our industries, nor consideration for how they may work on the “end-user” side. We are very grateful to the FRB for engaging with us early and continually throughout the process. FMI and our members firmly believe strong, secure payment innovation must be driven with all stakeholders at the table and fully engaged in the process.

As the request for comment notes, the Federal Reserve has a long history of provisioning services for payments and settlement that have helped advance and improve payments in the U.S. By implementing FedNow, the FRB will continue in its work of driving innovation and competition in our payments system. FMI particularly appreciated the FRB’s recognition that by building a ubiquitous core functionality for real-time payments and settlement, banks, payment processors, and other providers could build and offer new end-user auxiliary services our members could utilize. With this piece in mind, FMI finds it essential that the groundwork the FRB will lay by launching FedNow ensure inclusion, equity, and drive competition in the payments space.

With these principles in mind, FMI would like to share a few thoughts and insights in response to the questions posed.

Service Pricing

The FRB has announced it will release both the fee structure and schedule before the launch of FedNow. FMI agrees with the FRB’s approach to a long-run cost recovery. This is a large undertaking and a new service for the FRB. It is essential that it is done thoroughly and correctly, including the requirement for recovery of costs. Ensuring interoperability and opening the service to a wide array of existing and future use cases will all affect the long-term costs of the service. Additionally, the FRB may need to factor in incentives to encourage early adoption of the new system.

With that in mind, FMI requests the FRB establish a fee structure that is equally weighted between both senders and receivers of the payments. The value proposition for both sides of the transaction merit both equally shouldering the costs.

Directory Services

In the request for comment, the FRB outlines several potential directory service models it is considering. First, FMI is very supportive of a directory service that would allow retailers and their customers to initiate, send and receive payments without exchanging account information and instead using a more public identifier. This would require some sort of a directory service for

the banks to share the relevant information with each other. FMI supports the FRB building and running a centralized directory services that allows all vetted third parties to contribute to it. Consumers should be able to access their information to ensure it is correct and can be updated as needed. One centralized directory service would ensure ubiquity and a clear, secure standardization on data sets, making them open to all vetted and credentialed parties.

Fraud Prevention Services

FMI fully supports the FedNow's proposed capability of real-time monitoring of transactions and the ability to alert participating banks of any unusual or suspect transactions. Furthermore, it supports payee confirmation before the transaction can be completed. Due to the irrevocability of these transactions, it is logical to require that the payor can be assured they are indeed sending the funds to the correct payee.

Additionally, FMI advocates for strong end-user authentication at the time of enrollment and prior to multiple transactions that may require re-authentication depending on the risk of certain transactions.

Echoing our previous support for a strong and centralized directory service, customers and businesses would not need to share sensitive account information, instead can initiate transactions with something like a phone number or email address. However, we acknowledge that account information will still need to be shared at other levels of the transaction. In that space, FMI advocates for a requirement that all end-user sensitive data be tokenized both when in transit and at rest and stored in an open source manner compliant with existing applicable standards.

General Operations and Governance

In addition to the questions in the request for comment, the FRB also asked for general comments on all aspects of the proposed FedNow Service. Below are a few additional thoughts from the end-user perspective.

- 1.) Open and inclusive governance with all stakeholders is critical. As mentioned above, the U.S. payments system has traditionally taken a top-down approach with products, standards and protocols all being centrally set by a closed group without the ability of all stakeholders to participate and drive the outcome. FMI is a founding member of the Secure Payments Partnership (SPP), which advocates for creating an open and transparent standard setting process for electronic payments in the U.S. FMI strongly believes that the FRB has an opportunity to foster open standard-setting when implementing FedNow.

One possible approach could be to leverage the Faster Payments Council (FPC), which FMI is an active member of, as the primary governance body for FedNow. As the FRB knows, the FPC was formed as a direct result of the Faster Payments Effectiveness Criteria, which was developed jointly by the Faster Payments Task Force (FPTC) and Secure Payments Task Force (SPTF). While FMI did not participate in the FPTC, instead on the SPTF, we had several of our members involved in both and worked on the final effectiveness criteria. The FPC is a broad and inclusive group which recently formed and includes stakeholders from throughout the payments ecosystem. Additionally, its membership is open, and its board is inclusive of various industries within the payments space. FMI believes the FRB can leverage the expertise and structure of the FPC to deliver solutions that can be implemented and benefit all stakeholders. This structure could serve as a model for open and inclusive standard setting in other areas of the payments ecosystem as advocated for by the SPP.

- 2.) FMI encourages the FRB to consider raising the proposed \$25,000 transaction limit for FedNow. While the current level mirrors the private sector real-time solution, it is low for daily business to business transfers that in our industry can be hundreds of thousands of dollars, if not more. FMI would ask that the FRB work with the private sector provider to raise the cap to make it even more appealing for daily business to business transactions.
- 3.) FedNow should include a standardized “request for payment” feature. This feature would allow for a retailer or individual to send a request for payment, initializing the transaction, to the payor. Once the request for payment is received, the payor can push the payment to the payee completing the transaction. Among other advantages, a standardized request for payment feature will add another layer of verification that the payor is sending the funds to the correct payee.
- 4.) Interoperability is essential for the success of FedNow and will drive adoption and innovation. FMI acknowledges that complete interoperability may not be feasible at the initial launch of FedNow. With that in mind, FMI requests the FRB develop a plan to achieve interoperability between FedNow both current and future solutions in the market.
- 5.) Ease of use for the end-user is essential. End-user adoption will determine the success of FedNow. If there is a lack of uniformity in the user experience, or large hurdles for the customer to utilize FedNow, it will result in a lack of adoption. FMI encourages the FRB to develop standardized graphical user interfaces that can easily be incorporated into mobile banking applications making it easier for consumers to utilize the product. Features like standardized secure open APIs, authentication methods and user interfaces will all encourage end-user confidence and adoption.

FMI thanks the Federal Reserve Board again for its commitment to improve our payments systems in the U.S. We strongly believe FedNow is a much-needed product that will drive innovation and competition in that space. Thank you again for the opportunity to share our thoughts on FedNow and how we envision it being built, implemented and functioning. We look forward to continuing to work with the FRB to ensure FedNow is a success.

If you have questions about these comments or would like additional information, please feel free to contact me (hwalker@fmi.org).

Sincerely,

A handwritten signature in black ink, appearing to read "Hannah Walker". The signature is fluid and cursive, with a large loop at the end.

Hannah Walker
Vice President, Public Affairs