



3138 10th Street North
Arlington, VA 22201-2149
703.522.4770 | 800.336.4644
f: 703.524.1082
nafcu@nafcu.org | nafcu.org

National Association of Federally-Insured Credit Unions

June 22, 2018

Sean Rodriguez
Executive Vice President and Faster Payments Strategy Leader
Federal Reserve Bank of Chicago
230 S. LaSalle St.
Chicago, IL 60604

RE: Request for Stakeholder Feedback Regarding Operating Vision for the U.S. Faster Payments Council

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), the only national trade association focusing exclusively on federal issues affecting the nation's federally-insured credit unions, I am writing in response to the Governance Framework Formation Team's (GFFT) request for stakeholder feedback regarding the Operating Vision for the U.S. Faster Payments Council (FPC or Council).

NAFCU believes that the proposed FPC offers a promising first step towards facilitating broad adoption of future, faster payments solutions. Since the inception of the Federal Reserve's Payments Task Forces in 2015, NAFCU has worked with industry stakeholders to improve the speed and security of payments through the advancement of guiding principles and educational resources. NAFCU supports a collaborative, industry-led approach to addressing technical interoperability issues in a future, faster payments ecosystem. Accordingly, we are encouraged by the proposed Operating Vision's emphasis on consensus-driven collaboration and a "light touch" approach for resolving legal and technical issues.

To support the development of a faster, secure, and fair payments ecosystem, NAFCU is pleased to offer the following recommendations regarding the Operating Vision.

Clarification regarding application of the FPC's light touch and principles-based approach is needed.

NAFCU believes that some tension exists between the FPC's goal of taking a principles-based approach to removing barriers to ubiquity and solving problems, and other objectives that call for more concrete solutions. For example, it remains unclear how development of minimum service level expectations and end-user protections can be articulated through a principles-based framework when these concepts imply—at the very least—a commitment to particular standards. Furthermore, addressing issues regarding technical interoperability may require participants to agree on standardization of APIs and payments directories, which may not be realistically accomplished through principles alone.

NAFCU is encouraged that the Operating Vision has anticipated these problems and set forth a commitment to flexibility and responsiveness in decision making processes. NAFCU supports

the emphasis on allowing flexibility in the implementation of future standards or practices that are deemed necessary to fulfilling the objectives of the FPC. However, NAFCU believes that when the FPC decides to transition from a light touch approach to rules-based recommendations, it should do so pursuant to transparent decision making mechanisms that are subject to member review and approval. The FPC appears to acknowledge the need for such transparency. For example, Council decisions that are likely to have a direct cost impact on members such as security requirements or operating rules must be reviewed by the FPC Board to ensure that processes for developing the recommendation are inclusive, fair and consensus-driven. Consistent with the FPC's consensus-based approach, NAFCU believes that decisions with cost impacts or that involve endorsement of binding standards should require formal approval of the full FPC membership.

The FPC Board must be structured to ensure that financial institutions of all types have an equal voice.

NAFCU supports the Operating Vision's commitment to inclusiveness and transparency. As the proposal observes, development of a ubiquitous, faster payments system by 2020 will require broad adoption and the support of all payment industry stakeholders—including credit unions. NAFCU believes that it is essential that credit unions are fairly represented on the FPC and able to participate in all aspects of decision making. However, NAFCU is concerned that the FPC's proposed board structure could potentially dilute the voice of credit unions by apportioning only a single industry segment for all financial institutions.

The proposed Board structure recognizes the need to "include a mix of sizes and types of institutions," yet does not provide specifics on how this will be accomplished. For example, the financial institution segment could consist of four banks and one credit union, a composition that would tend to marginalize credit union concerns. NAFCU recommends that the GFFT clarify the process by which financial institutions of varying size and type are represented equally on the FPC Board.

The GFFT should clarify how the decision making process will work to achieve the Operating Vision's goal of fairness and equity.

Although the proposed operating vision does not present detailed descriptions of the FPC's decision making mechanisms, NAFCU believes that adoption of a decision making framework similar to the one used by the Federal Reserve's Payments Task Forces could result in vote fragmentation. Specifically, a voting scheme where a member-wide vote is invalidated when more than one membership segment objects could be counterproductive and result in deadlock on issues that require compromise. Ideally, the FPC would avoid promulgating guidance, standards or other recommendations that fail to win the approval of all segments; however, NAFCU believes that the Operating Vision should be clear as to what procedures will be used to reach compromise in the event that not all industry segments can agree.

The GFFT should explore the possibility of lowering operating expenses and should include a non-dues paying advisory member category.

In order to support broad industry participation, the GFFT should explore the feasibility of a non-dues paying advisory member category. NAFCU believes that advisory members may encompass the smallest entities whose perspectives are worth hearing but do not have the resources to satisfy directed contribution requirements. Potentially, advisory members could join the FPC through trade associations or other industry coalitions.

NAFCU also urges the GFFT to review the FPC's estimated annual operating expenses and seek to reduce costs. The proposed annual operating budget of \$4 million necessitates dues funding that small and mid-size credit unions may not be able to support. To encourage broad participation, it may be prudent to lower operating expenses and membership dues by reducing fixed overhead such as physical office space.

The FPC should encourage government participation.

NAFCU believes that the FPC should encourage Federal Reserve participation in a future, faster payments marketplace as either an operator or a service provider. In order to accommodate future interest, the FPC should provide opportunities for government representatives to join the FPC and share their perspectives. NAFCU understands that it may be problematic to offer government representatives full voting rights given the FPC's role as a private sector organization; however, the Operating Vision should clarify what is meant when it refers to government entities serving as "liaisons to the Board." NAFCU believes that it would be of value to all potential FPC members to interact with government representatives (particularly those from the Federal Reserve), either through the proposed committees or work groups, in order to discuss operational challenges which might impact the government's decision to play role as a faster payments operator.

Conclusion

NAFCU appreciates the opportunity to provide comments on the Operating Vision for the U.S. Faster Payments Council. If you have any questions or concerns, please do not hesitate to contact me at amorris@nafcuhq.org or (703) 842-2266.

Sincerely,



Andrew Morris
Regulatory Affairs Counsel

cc: Governance Framework Formation Team Members