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December 13, 2013

Sandra Pianalto  
President and CEO  
Federal Reserve Bank of Cleveland

Dear Ms. Pianalto:

The Federal Reserve Banks (“Federal Reserve” or “FRBs”) published “Payment System Improvement – Public Consultation Paper” and invited interested parties to provide feedback and comments on the information, ideas and concepts in the document. This paper shares the FRB’s perspectives on the key gaps and opportunities in the U.S. payment system and identifies the desired outcomes that close these gaps and capture these opportunities. In addition to seeking broad industry input on the gaps, opportunities and desired outcomes, the FRB has also requested input on potential strategies and tactics to shape the future of the U.S. payment system and the Federal Reserve Banks’ role in implementing these strategies and tactics.

Accredited Standards Committee X9, Inc. (“X9”) is the ANSI-accredited, open consensus standards development organization for financial industry standards in the United States. For the past thirty (30) years, X9 has been actively developing American national standards for implementation and use by the U.S. financial community. These standards have had far-ranging impacts on the U.S. financial industry – and thus on the historical viewpoint of payments and payment systems in the U.S. These standards have addressed needs in the areas of core, wholesale, and retail banking, as well as in all areas affecting retail card payments. Further, the X9 organization links the U.S. financial community to international standards development through its relationship to the International Organization of Standards or ISO.

A significant focus of X9 standards has been on numerous aspects of the security of financial industry data and information security, including a recently issued standard for the use of point-to-point encryption for the protection of sensitive cardholder data (X9.119-Part 1), ongoing projects to establish a tokenization standard (X9.119-Part 2), and to evaluate security requirements for cloud-based financial services (X9-119-2). X9 is also leading the effort underway to develop international mobile banking and mobile payments standards (ISO 12812, Parts 1-5).



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As banking and financial services have transitioned from paper to electronic transactions, so has the need and requirements for enabling standards developed and maintained by X9 in payments, corporate banking, securities, and data security. For example:

- X9 worked closely with the industry and the Federal Reserve to develop an array of check image related standards to support the Check 21 law (see e.g., X9.100 series);
- Electronifying government benefit payments is facilitated by X9's Electronic Benefits Transaction standards (see e.g., X9.58 and X9.93);
- Many data security standards have been developed around a specific industry requirement or a new service provision; the PIN (personal identification number) standard is an excellent example of this. Additionally, such new requirements and services quickly required the financial services industry to protect not only transaction services provided nationally within the U.S., but also to secure international transaction services. Banking was among the first industries to require strong and effective encryption and its export within payments-related hardware.
- X9 has developed numerous standards that form the backbone for payment cards, card processing, and card security, many of which have become ISO standards.

Over time, the financial services industry through X9 has developed a long history of working with the Federal Reserve. The result of these activities has been the development and maintenance of a large number of technical standards that are critical to the smooth, secure, and efficient functioning of the U.S. payment system. We are proud to note that Federal Reserve employees participate on every X9 technical subcommittee and many standards work groups and that the current Vice Chair of the X9 Board of Directors is a FRB executive.

Given this historical perspective, X9 is well-positioned to provide comments on the Consultation Paper, especially with respect to development of payments messaging and data security standards. X9 appreciates this opportunity and looks forward to our continued relationship with the Federal Reserve as it moves forward on various initiatives in response to input received on this Paper.

### **The Role of Voluntary Consensus Standards and the Public-Private Partnership**

As a standards development organization, X9 sees the financial industry through the prism of standards. From this perspective, then, X9 cannot imagine how the future of payments in the United States can move forward without a full, comprehensive, and robust program of building voluntary consensus standards. One of the great strengths of the U.S. approach to standards and conformance is the “public-private partnership” – a term that stakeholders in government and industry use to describe the long-standing, effective, and cooperative working relationship between the public and private sectors.

The public-private partnership in the United States is strong because it is a true partnership. Neither government nor industry claims or exerts overall authority over the other,



and by working together in respectful cooperation, we are able to most effectively respond to the strategic needs of the nation. This dynamic makes our open consensus standardization system unique in the world. Our national standardization system is a democratic process that thrives on the active participation and engagement of all affected stakeholders. Thus, an open, market-driven, and private sector-led system is critical to achieving widely-shared policy goals of expanded U.S. leadership and innovation on emerging payments issues, as well as on the global stage.

Financial standards are the backbone of the banking and payments market places. They are the building blocks for innovation of emerging technologies and payment instruments, and the basis for achieving quality, safety, and interoperability. Voluntary consensus standards and compliance activities are essential to the U.S. economy, build bridges to new markets, and create gateways for businesses in this increasingly complex world of global access.

Against this fundamental backdrop of the need and utilization of public standards, X9 turns to address a few specific questions in the Consultation Paper relevant to standards.

#### *General (Question 3)*

X9 encourages the Federal Reserve to continue to serve as a leader and catalyst in selected areas where doing so can help move the industry forward, especially on payment issues where strongly held differences of opinion may impede progress. Two examples involving partnership between X9 and the Federal Reserve serve to illustrate how the FRBs can be an effective leader and catalyst in collaboration with the broader industry.

- In 2011 X9 and the Federal Reserve co-sponsored an industry meeting on challenges to electronification of B2B payments. This ultimately led to the formation of a broadly constituted industry organization called the Remittance Coalition, which focuses on increasing the use of electronic payments for B2B transactions and making the end-to-end process from invoices to remittance information more automated and efficient. The Coalition has been effective in identifying and mitigating practical problems in the B2B space, including the implementation of three new X9 standards that will be published yet this year or in early 2014.
- Second, X9 and the Federal Reserve co-sponsored a meeting just this week to discuss and determine how open consensus standards may be able to help facilitate the implementation of integrated circuit chip cards in the U.S. (i.e., EMV). The meeting was successful in identifying six follow-up actions that leverage open consensus standards.

#### *Ubiquitous near-real-time payments (Questions 4-7)*

X9 does not have an organizational point of view on whether near-real-time (NRT) payments should be pursued in the U.S. in the next several years or how a NRT system should be designed if it does proceed. However, once a general direction and design have been determined, we believe that open consensus standards should be used to help enable NRT payments to ensure accessibility and interoperability across the industry. For example:



- It would be possible to use standards to link existing limited-participation networks, which is raised as an option in the Paper;
- Standards could also play a significant role in supporting an open and accessible directory service for routing payment information;
- Masking bank account information is identified as a possible feature of a NRT system; here too, X9 could support the process by developing a standard for this purpose through its data security subcommittee; and
- Should electronic payment orders (“EPOs”) move forward (see Question 7), existing check standards will need to be modified to enable identification of these payment instruments (e.g., X9’s payments subcommittee has already taken the action to reserve a digit in the MICR line for this purpose).

### *Electronification (Question 14)*

Across the different types of payments, B2B transactions are likely the most complex given the extent to which efficiency depends on effective automated integration of payment processing with other business information and processes such as issuing the invoice and reconciling and payment with remittance information. Identifying the best ways to accelerate the migration of B2B transactions from paper to more electronic and automated methods requires the involvement of diverse experts from corporations, financial institutions, service providers, standards developers and others. Thus, organizations like the Remittance Coalition, in which both X9 and the Federal Reserve participate and provide leadership, are well positioned to advance the electronification objective, but would benefit from additional resources from the Federal Reserve.

Barriers often raised by corporate practitioners in this area that concern standards include first, the lack of common implementation practices by businesses in the use of existing open standards and second, the difficulty of making the business case to service providers (e.g., software vendors and financial institutions) to adopt new, open standards that would facilitate progress given investments in legacy infrastructure and preferences to promote proprietary solutions. The Federal Reserve should be able to help X9 and others address these barriers through collaborative organizations such as the Remittance Coalition or through mandates where the Federal Reserve has authority.

### *Cross-border Payments (Questions 15 and 16)*

X9 supports the adoption in the U.S. of XML-based ISO 20022 payment message standards, but believes the timing and process for adoption should come from an industry-based business case. X9 is participating with the Federal Reserve, The Clearing House, and NACHA, and together they have engaged a consultant to complete a business case analysis of ISO 20022 adoption. The recommendations from this analysis will be used by X9 and its partners to determine the appropriate next steps. X9 encourages the Federal Reserve to remain actively engaged in the implementation phase of this work effort.



## *Safety (Questions 17-20)*

The Consultation Paper raises the question (Question 19) about future standards in the security area. As suggested in our opening comments, X9 believes that the move to adopt its existing security standards would be significant in itself. Moreover, if the financial industry becomes more supportive of standards-based solutions, X9 contends that all interested parties will make better decisions, resulting in a specific coordinated action and better chances of broad-based adoption of the new standards.

X9 recently developed the attached summary of information security standards to NIST in support of its contention that the financial industry system must be included within the “critical” cyber-security infrastructure. This framework of current security standards illustrates the scope and potential applications for these standards. In fact, these standards constitute many of the security tools that have been implemented in the Federal Reserve’s own payment infrastructure; expansion of their use would result in greater security and additional interoperability among members of the financial industry.

X9 looks to the financial community for direction. Detractors will argue that time and costs are impediments to developing and implementing a standard. However, X9 recently participated in the development of a standard for Legal Entity Identifiers in 12 months, which has international application. Obtaining support and consensus for advancing new security tools needed by the financial industry can – and should – be streamlined where possible, so that everyone can benefit from standards. For its part, X9 stands ready to undertake an effort to determine how to create consensus and final standards in an efficient process and in the shortest period of time.

In a related question, the Paper asks about obstacles to the adoption of security-related payment standards. As stated above, the single greatest obstacle to the adoption of standards is the interest and will of industry participants to identify areas for standardization, to expend the time, energy (and costs) of participation in the standards development process, and to exhibit the drive necessary to move the process to completion. Of course, inasmuch as these are **voluntary standards**, it is always a challenge to build a standard that the great majority of participants will want to adopt and implement. X9 is currently considering a program that will foster adoption through the development of implementation guidelines.

The Paper also seeks input on what collaborative actions the Federal Reserve should take with the industry to promote the security of the payment system from end to end. X9 is an advocate for using the most comprehensive and demonstrable outcome of collaboration – public consensus standards. Security, particularly security within the payments environment, has undergone significant changes in the past few years – and further changes are expected, especially with the ever increasing focus on mobile payments. Therefore, end-to-end security covering financial content, payment instruments, types and platforms, and transaction processing, today represents the “holy grail.” Threats are associated with each of these individual areas; hence, the development of standards represents a growing need to stay ahead of those who seek to exploit the system and defeat existing security technology.



Finally, X9 urges the Federal Reserve to collaborate with the payments industry through X9 to develop the proper array of security standards necessary to advance end-to-end security solutions and to encourage the industry to develop open, consensus-based standards through the ANSI/ASC X9 model. Given the diversity of the current technologies and the availability of available infrastructures, industry security standards will facilitate stronger and more effective security methods and tools. X9 also believes that the FRB collaboration efforts can equally provide education and momentum amongst the user community to employ stronger security controls.

### *Additional Perspectives*

An important development in the U.S. payment system today is the use of mobile devices to support banking and payment activities. To this end, open, consensus standards are needed to foster continued innovation, while also ensuring accessibility and interoperability across the industry as well as robust security. Thus, X9 encourages the FRBs to continue their active involvement in the development of ISO standards for mobile banking and payments and following the adoption of such standards by ISO, to work with X9 to promote their use throughout the industry.

### **Conclusion**

X9 offers these comments with the strongest recommendation that the use of, adoption, and participation in voluntary, open, consensus-based U.S. national (and international as applicable) standards is the best pathway towards building a future payment structure that will achieve all the goals that may emerge from the Paper.

Respectfully submitted,

*Cynthia Fuller*

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