



1700 G Street, N.W., Washington, DC 20552

December 13, 2013

Sandra Pianalto
President and Chief Executive Officer
Chair of Financial Services Policy Committee
Federal Reserve Bank of Cleveland
1455 E. 6th Street
Cleveland, OH 44114

Dear President Pianalto:

The Consumer Financial Protection Bureau (Bureau) thanks the Federal Reserve Banks for the opportunity to comment on their September 2013 Payment System Improvement—Public Consultation Paper. This letter contains an initial response that we hope will serve as the foundation for continued conversation with the Federal Reserve Banks and other stakeholders regarding consumer protection and the important questions that the paper raises.

The Bureau commends the Federal Reserve Banks' action to assess the U.S. payment system and look for opportunities for improvement. We agree with the observation that “[p]ayment preferences are evolving rapidly due to demographic shifts and application of new technology,” and we share the interest in “fostering an environment where innovative payment services can be developed to meet the changing payment preferences of end users without sacrificing the efficiency advantages of near-ubiquity.” We find laudable the Federal Reserve Banks' vision of “improv[ing] the speed and efficiency of the U.S. payment system from end-to-end . . . while maintaining a high level of safety and accessibility.” We believe that if these objectives are achieved, they may be beneficial in many ways, including serving to protect the interests of consumers.

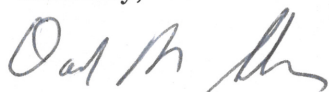
We particularly appreciate that the Federal Reserve Banks have included discussion of consumer needs and preferences. Payments — whether their purpose is to receive wages, pay bills, make purchases, or support family members — are fundamental to consumers' financial lives. In gap number 8, the Federal Reserve Banks identify consumer concerns about payment security. In describing their desired outcomes, the Federal Reserve Banks recognize the public's need for security and the potential value to consumers of various payment system developments.

As the Federal Reserve Banks move forward with their analysis and related projects, we hope that they will allow for more express attention to consumer protection goals. As the Federal Reserve Banks suggest, consumer preferences for, or concerns about, any particular payment method may vary. It is important to recognize the potential tensions among different consumers' needs. At the same time, we believe that, regardless of the method of payment in use, consumers may benefit not only from access to appropriate payment services, but also from basic protections against harm. As a result, we believe that an end-to-end analysis of payment system gaps, opportunities, and outcomes will be a stronger foundation for payment system developments if it continues to recognize the potentially varied nature of consumer concerns, more expressly recognizes the need to preserve existing protections and benefits for consumers, and discusses the extent to which consumers may need new protections against problems that current systems or laws have not anticipated.

To reflect the importance of consumer protection, we recommend that the Federal Reserve Banks incorporate the topic into their analysis of gaps and opportunities and add a sixth desired outcome: that key improvements to the payment system reflect appropriate consumer protections, which may include transparent and understandable information about the costs and terms of payment services, reasonable access to funds, protection against fraud or errors, controls on repeated presentment, and/or other protections. We also recommend that the Federal Reserve Banks encourage analysis of the potential advantages or disadvantages to consumers of any changes to the payment system, including the moves toward real-time processing that the Public Consultation Paper mentions at several points.

As the nation's first federal agency focused solely on consumer financial protection, the Bureau's mission is to make consumer financial markets work for American consumers, responsible businesses, and the economy as a whole. In executing this mission, the Bureau has already embarked on rulemaking, research and other projects regarding a variety of payment-related products, including credit cards, international remittances, prepaid cards, and overdrafts. As the Federal Reserve Banks further develop their payment system improvement initiative, the Bureau welcomes the opportunity for continued engagement regarding consumer protection principles and goals.

Sincerely,

A handwritten signature in dark ink, appearing to read 'David Silberman', with a stylized flourish at the end.

David Silberman

Associate Director

Division of Research, Markets and Regulations