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Submitted electronically via comment@fedpaymentsimprovement.org

Response and input to the Federal Reserve Banks - Payment System Improvement – Public Consultation Paper

Ladies and Gentlemen:

TD Bank, N.A. ("TD") is pleased to provide input to the Federal Reserve Banks' request for public comment on Payment Systems Improvements published on September 10, 2013 (the "Request"). TD is a financial institution and is one of the 10 largest banks in the U.S. with approximately 27,000 employees. TD offers a broad array of retail, small business and commercial banking products and services to more than 8 million customers through its extensive network of approximately 1,300 retail locations throughout the Northeast, Mid-Atlantic, Metro D.C., the Carolinas and Florida. In addition to responding to the specific questions contained in the Request, TD would like to share our views concerning the payment systems generally and some of the key principles that we believe are foundational to payment systems improvements.

Key Principles

Security

The financial services industry, including banks, has been exceptionally well served by financial institutions and governance structures such as NACHA and the Federal Reserve as well as industry partners and technology firms that have enabled a very secure banking environment. Security must therefore be a foundational principle for both the protection and privacy of the users as well as the safety and soundness of the systems. Accordingly, access to the payment systems should be well controlled and monitored by the underlying infrastructure providers, regulators, originators, and receivers. Standards for initial and ongoing access must be exceptional.

Any participants in the payment system must therefore adhere to the highest standards regarding fraud, anti-money laundering, OFAC and Bank Secrecy Act requirements and protections.

Economics / Cost

Cost is a major factor that has been lightly addressed in the Request. The industry has invested billions of dollars in infrastructure for payment systems. These systems and rails facilitate many forms of payments ranging from

business to business (B2B) and consumer to consumer (C2C) all participants in the payment systems have benefited from the low-cost, speed and safety of these systems the cost of which has been amortized across trillions of transactions. TD believes that these investments should both be leveraged and protected.

As participants or new entrants create new or derivative solutions involving existing payment schemes the economics of the scheme must be evaluated to capture and recognize the value that each participant enables. For example, when a retailer creates a POS "Debit" product which in effect is an ACH DCT the value of the ACH system is leveraged but the ACH value has been marginalized.[Another aspect of economics and costs to be considered for the future is the consideration of dual structures. For example, payments stakeholders have greatly benefited in the processing, clearing and settlement of transactions by both the Federal Reserve Bank and The Clearing House Payments Association. The need for both entities should be considered as the industry moves forward and as common utilities are contemplated.

Access / Standards

TD believes that access to the payment systems must be open yet controlled. Identification and authentication to all levels of the payment systems must be strong and multifactor. Access to the systems as a user should be vetted with appropriate due diligence of all participants recognizing all laws and requirements of the United States and our global partners. Access to the systems as a payment provider or infrastructure component should also be well controlled with appropriate due diligence and qualification prior to allowing consumers or business funds to be placed at risk. These qualifications should come with certification and review by central services with well-established and understood criteria.

Learning

The United States is not the first country to review payments systems and future needs. We believe there are good practices and advancements in countries such as Canada, Australia and the United Kingdom that should be considered. Each of these countries has begun to develop central utilities, standards and infrastructure that serve many of the requirements and objectives that are outlined in the Request. In each of these domains the financial community came together to address many needs. In all cases regulatory bodies, standards groups and public interest groups actively participated in the development of the capabilities.

Customers

As "America's Most Convenient Bank" TD places the customer first in everything we do. With this in mind we believe that impacts to Customers whether they are

consumers or businesses be well considered and informed. These groups often do not see or understand the components operating the payment systems and therefore the industry should be transparent in describing terms of options, costs and benefits. We believe that the financial services industry has done an effective job at both protection and keeping payment systems costs low and needs to continue these efforts in areas such as cyber-crime, free bill payments and the declining cost of payments in general.

White Paper Questions and Responses

General
Q1. Are you in general agreement with the payment system gaps and opportunities identified above? Please explain, if desired.

In some cases we do not agree. However we do recognize the need for change and industry mobilization. The areas of disagreement are:

- The industry has developed many options and innovations for participants. These include diverse merchant capture solutions, broad card payment systems, digital payments for the web, improved check clearing capture methods and clearing timeliness and improved bill payment options and flexibility.
- Protection of customer payments against fraud and criminal actions as both attacks and cybercrime has accelerated.
- Increased the trust of consumers with liability limitations and generally low customer loss experience.
- Customer services, options and choices have steadily grown.
- Developed multichannel access.

Many of the above are often provided for little to no cost to the originator or receiver and the costs have fallen to financial institutions.

Areas of agreement and need for carefully considered change include:

- Improvements in the ability to transfer value without knowing all of the recipients detailed account information. To affect this however, a recipient must be enrolled and on-boarded to a pre-existing account. The account can be card based or deposit based but must be offered by a trusted provider that meets regulatory requirements and that can fulfill participant reciprocal requirements and adhere to rules.
- Providing real time notification as long as the value and economics of the notification is recognized by the service provider.
- Cross-border payments have been slow and costly and have largely utilized wire payments.
- The value of a centralized utility to verify authority of an account holder.

This could create efficiency and the highest degree of safety. We note that this does not imply a single utility. Depending on the use cases there could be multiple utilities as long as they are structured for serving payments and end users with the highest standards or protection.

i. *What other gaps or opportunities not mentioned in the paper could be addressed to make improvements to the U.S. payment system?*

Digital payments often require infrastructure support and participation from the telecommunications industry, particularly cell phone networks and suppliers. As a result of the Dodd-Frank Act, much of the responsibility of the FTC's Bureau of Consumer Protection was moved to the Consumer Financial Protection Bureau. Mobile payments regulation (other than payment cards and existing payment rails such as debit) has not been well defined. To date, the prudential regulators have not had a strong role in regulatory oversight in this arena. We believe clearer roles and accountabilities should be defined.

Q2. Are you in general agreement with the desired outcomes for payment system improvements over the next 10 years? Please explain, if desired.

Yes, however there is a missing element or emphasis in the desired outcomes in the case of Merchant participants. Merchants are an important element of the payments ecosystem. While the Durbin Amendment addressed merchant costs and network exclusivity the Federal Reserve Board ("FRB") final rule did not address infrastructure innovation, security or evoke direct consumer benefits. Merchants and merchant processors have and will play a role in payment innovation. Merchants require access to account verification and any future account registry services. Merchants should also play a role in consumer education and most importantly adoption of payment methods.

i. *What other outcomes should be pursued?*

No response provided.

Q3. In what ways should the Federal Reserve Banks help improve the payment system as an operator, leader, and/or catalyst?

We applaud the FRB's role in being a catalyst for the industry to move forward and consider broad interests for payment solutions. We believe that beyond being a catalyst for discussions, the FRB could and should serve several roles, including;

- Regulatory oversight of all payments participant to assure compliance with all laws and regulations.
- Acting as a potential regulator of any future state account registry services to provide uniformity of structure and to establish membership criteria and for access to and protection of payment or account information.

- Acting as a liaison with other payments participants in the development of or agreement to standards setting, particularly relating to cross border payment interoperability.
- Holding third party payments processors to the same level of governance and oversight when introducing new payments services.

Ubiquitous near-real-time payments

Q4. In discussions with industry participants, some have stated that implementing a system for near-real-time payments with the features described in the second desired outcome (ubiquitous participation; sender doesn't need to know the bank account number of the recipient; confirmation of good funds is made at the initiation of the payment; sender and receiver receive timely notification that the payment has been made; funds debited from the payer and made available in near-real-time to the payee) will require coordinated action by a public authority or industry group. Others have stated that current payment services are evolving toward this outcome and no special action by a public authority or industry group is required.

i. Which of these perspectives is more accurate, and why?

TD agrees with the market need for improving real time payments and in some cases without the need for knowing the account information. This is especially encouraged for P2P and P2B low value payments. The use of an alias or alternate key / token that can be associated to the account by a trusted party is required. The receiver or holder of the alias or alternate key does not have to be the party that associates the alias to the account. That association can be achieved through a central utility, by a trusted provider or a financial institution. TD also believes that this system cannot be left to evolve without special action by the industry or an industry participant that is able to preserve the uniformity and safety of access to the system.

ii. What other perspective(s) should be considered?

The complexity of risk management systems should be driven by the value and speed of the particular transaction. This does not require separate high and low value systems, but rather one system capable of handling all transactions.

Q5. The second desired outcome articulates features that are desirable for a near-real-time payments system. They include:

a) *Ubiquitous participation*
b) Sender doesn't need to know the bank account number of the recipient
c) Confirmation of good funds is made at the initiation of the payment
d) Sender and receiver receive timely notification that the payment has been made

e) *Funds debited from the payer and made available in near-real time to the payee*

i. *Do you agree that these are important features of a U.S. near-real-time system? Please explain, if desired.*

Yes, as noted above we agree that the industry would be well served by an ability to achieve near real time payments, recognizing the need to perform validations, BSA, AML and risk screening for each and every payment transaction. Industry efforts to move in this direction have begun but have been slower to evolve. (e.g., NACHA EPS service.)

Ubiquitous participation is required but does not imply instant enrollment without providing relevant credentials and a level of due diligence by the system operator.

Good funds confirmation should be available as an option. To enable this feature, the industry should develop more sophisticated credit approval methods. Visibility to the timely settlement of the transaction should be available to both originator and receiver. Participants must be mindful of the costs and value of doing so. For example receiving banks today have born the cost of return management, alerting and servicing and support and settlement of payments without the benefit of appropriate value transfer. Therefore the cost of developing real time notifications should be shared by all participants and /or considered in the value proposition for the sender and receiver.

It should be recognized that there are existing methods for senders and receivers to be aware of payments in the forms of online banking alerts and notifications, positive payment services and good funds models. These existing capabilities should be leveraged before any net new costly systems are developed.

ii. *What other characteristics or features are important for a U.S. near-real-time system?*

No response provided.

Q6. Near-real-time payments with the features described in the second desired outcome could be provided several different ways, including but not limited to:

a) *Creating a separate wire transfer-like system for near-real-time payments that leverages the relevant processes, features, and infrastructure already established for existing wire transfer systems. This option may require a new front-end mechanism or new rules that would provide near-real-time confirmation of good funds and timely notification of payments to end users and their financial institutions.*

The wire transfer system is reasonably effective in terms of payment finality and

cross border payment, however it carries a fairly significant infrastructure with associated costs and lacks the ability to inform participants on a timely basis. The use of the wire transfer infrastructure does not seem to be the most optimal solution.

TD suggests that other existing systems be considered such as:

- ACH real time, leveraging the EPS and Emergency payroll service methods
- Enabling real time A2A transfers utilizing demand deposit and card systems and associated accounts. The current card networks provide many of the features of real time value transfer such as authorizations, notifications, security, and channel access and liability protection and at a cost that is appropriate for the value received.
- Leveraging network and product innovations such as the ClearXchange, Pay Net and POP Money, with common integration and network governance protocols for clearing, settlement, returns, and standards for customers to enroll and participate in sending and receiving payments.

b) *Linking together existing limited-participation networks so that a sender in one network could make a payment to a receiver in another network seamlessly. This option may require common standards and rules and a centralized directory for routing payments across networks.*

TD believes this is an end state goal given the numerous participants and differing customer experiences. Common standards and rules would establish the foundation for this capability.

c) *Modifying the ACH to speed up settlement. This option may require a new front-end mechanism or new network rules that would provide near-real-time confirmation of good funds and timely notification of payments to end users and their financial institutions. Payments would be settled periodically during the day.*

Yes, see answer to Q6. a) Above.

d) *Enhancing the debit card networks to enable ubiquitous near-real-time payments. Implementing an entirely new payment system with the features described in the second desired outcome above.*

Potentially yes, however given the uncertainty of the outcome of litigation surrounding the Durbin Amendment this option presents a risk. The network however is well structured to be enabled for near real time payments. TD would encourage enhancements to move towards credit “push”.

e) *Implementing an entirely new payment system with the features described in the second desired outcome above.*

Introducing an entirely new payment system is not likely to be successful for a mature payment and financial services infrastructure. In more immature markets rapid adoption was successful due to missing infrastructure components. The U.S. has broad and strong payments networks and infrastructures. These should be leveraged. The obstacles for taking advantage of these in a more expedient manner have been:

- Government intervention versus facilitation
- Focus on growth in regulation versus innovation
- Capital investments in a time of significant recession
- Banking inertia and lack of cooperation

i. *What would be the most effective way for the U.S. payment system to deliver ubiquitous near-real-time payments, including options that are not listed above?*

ii. *What are the likely pros and cons or costs and benefits of each option? What rule or regulation changes are needed to implement faster payments within existing payment processing channels?*

Expansion of the interbank settlement system on a 24 hour basis would be an effective way to achieve this result

iii. *Is it sufficient for a solution to be limited to near-real-time authorization and confirmation that good funds are on their way, or must end-user funds availability and/or interbank settlement take place in near-real time as well?*

iv. *Which payment scenarios are most and least suitable for near-real-time payments? (B2B, P2P, P2B, POS, etc.)*

End-user near-real-time funds availability and notification and interbank settlement are both desirable goals. However these can be less of a priority if participants wish to mitigate the risk for originators. This could be a valuable addition to those participant customers that want complete end to end verification and may be willing to pay for that value and risk taking a financial institution.

Q7. Some industry participants have said that efforts to make check payments easier to use, such as by enabling fully electronic payment orders and/or by speeding up electronic check return information, will incrementally benefit the payment system. Others argue the resources needed to implement these efforts will delay a shift to near-real-time payments, which will ultimately be more beneficial to the payment system. Which of these perspectives do you agree with, and why?

TD believes that the check system infrastructure has been largely optimized for a declining yet stable payment method. The investments going forward should be

limited to keeping ahead of ongoing fraud and crime prevention threats. Opportunities should therefore be focused on payment speed, efficiency and safety, with customer choice and simplification in mind.

Q8. How will near-real-time payments affect fraud issues that exist with today's payment systems, if at all?

i. *Will near-real-time payments create new fraud risks? If yes, please elaborate on those risks.*

Yes. Any time a new channel or method is introduced attacks will be made to circumvent controls and attempts will be made to steal both data and funds. Fraud controls will have to in turn be more real or near real time versus next day or delayed. As we have seen with Mobile RDC, synchronization across channels is also an important factor that requires controls and investments in risk analytics.

Q9. To what extent would a ubiquitous near-real-time system bring about pivotal change to mobile payments?

Adoption for many payment constituents will rise. Small value P2P mobile payments would accelerate if security concerns are satisfied.

Q10. What would be the implication if the industry and/or the Federal Reserve Banks do not take any action to implement faster payments?

Consortiums would likely evolve. These would likely come from larger organizations that have the financial capability and capacity to invest. Consortiums tend to fail or gain limited participation due to the cost of entry and therefore often lack ubiquity which is one of the most important elements for success.

i. *What is the cost, including the opportunity cost, of not implementing faster payments in the United States?*

The cost will be significant due largely to the proliferation and potential duplication of new schemes. Many will fail over time.

Q11. To what extent will the industry need to modernize core processing and other backend systems to support near-real-time payments?

Real-time core processing would certainly enhance payments innovation; however it is difficult to foresee a viable cost / benefit outcome.

Many elements already exist. The connections and interfaces are in place. What is required to be improved upon and which will require further investments are:

- Real time risk analytics

- Enhanced processing speed and power
- Stronger failover and fault tolerant capabilities to support near real time payments
- Adoption of global standards
- Interface modularity
- Investment incentives

i. What is the likely timeframe for any such modernization?

The industry is innovating and modernizing every day. It is very difficult to establish a timeframe without agreeing to standards and milestones. That said, if the entire industry is expected to modernize this will require significant effort given the large number of market participants.

Q12. Some industry participants suggest that a new, centralized directory containing account numbers and routing information for businesses and/or consumers, to which every bank and other service providers are linked, will enable more electronic payments. A sender using this directory would not need to know the account or routing information of the receiver.

TD supports this view. A ubiquitous service would benefit interoperability and encourage adoption. Experience in the U.K. with Faster Payments where a type of account registry and account validation scheme has enabled the majority of digital payments and therefore supported more rapid adoption.

i. What are the merits and drawbacks of this suggestion?

As previously noted, the merits to this suggestion are standardization and accessibility which supports adoption and innovation.

The drawbacks are over regulation and associated costs. Perhaps not drawbacks but other challenges are customer perception and fear of privacy protection with such a utility. To enable use customers should be able to inquire on and or / be alerted to any changes to their profile or accounts.

ii. What is the feasibility of this suggestion?

It is feasible however it requires that minimum standards for safety and protection of customer data for faster settlement especially for large value transfers.

Q13. Some industry participants say that check use is an enduring part of the U.S. payment system and that moving away from checks more aggressively would be too disruptive for certain end users.

i. Is accelerated migration from checks to electronic payment methods a high-priority desired outcome for the U.S. payment system? (Accelerated

means faster than the current trend of gradual migration.)

TD bank does not see this as a priority for investment. As digital payment systems expand, Check usage will continue to decline.

ii. Please explain, if desired.

No response provided.

iii. If yes, should the Federal Reserve Banks establish a target for the percent of noncash payments to be initiated via electronic means, by a specific date? For example: "By the year 2018, 95% of all noncash payments will be made via electronic means."

Target state visions can be important to set the tone and rally the industry. Aside from that however, penalties or hurdles for not meeting those objectives should not be established or regulated. For end state visions to be achieved incentives, milestones and action plans should be identified and agreed to. Progress should be measured at the company level not across all financial institutions.

iv. What is the appropriate target level and date?

No response provided.

Q14. Business-to-business payments have remained largely paper-based due to difficulties with handling remittance information. Consumer bill payments also are heavily paper-based due to the lack of comfort some consumers have with electronic alternatives. In addition, many small businesses have not adopted ACH for recurring payments due to technical challenges and/or cost constraints. The payment industry has multiple efforts underway to address these issues.

i. To what extent are these efforts resulting in migration from checks to other payment types?

Many organizations such as TD have enabled B2B payments particularly for small businesses with the creation of new accounts, packages and channels that are aligned with small business needs. This includes ACH, wires and bill payment all of which are getting traction with Small Business Customers.

ii. What other barriers need to be addressed to accelerate migration of these payments?

The creation of appropriate incentives for parties that develop supporting infrastructure.

iii. What other tactics, including incentives, will effectively persuade

businesses and consumers to migrate to electronic payments?

Integrated payables and receivables are very important for evolving business payments. Commercial and corporate customers desire to have a single payments file that can be generated from their accounting systems with a rich set of addenda and invoice capabilities. These payments capabilities tend to be specialized and the integration on the payments ends must be open and facilitate the messaging and near real time capabilities that are part of the desired outcomes.

iv. *Which industry bodies should be responsible for developing and/or implementing these tactics?*

Central governing bodies should build industry wide tactics.

Cross-border payments

Q15. To what extent would the broader adoption of the XML-based ISO 20022 payment message standards in the United States facilitate electronification of business payments and/or cross-border payments?

The ISO 20022 payment message standards should be utilized in the United States. Many banks have already begun to implement and offer the use of the standard to improve interoperability and straight through processing. Since the standard is a toolset it could be embraced by all payments participants.

While TD bank is supportive of standards, the proliferation of standards does not in themselves improve the end goals of ubiquity and interoperability.

Q16. What strategies and tactics do you think will help move the industry toward desired outcome four - consumers and businesses have greater choice in making convenient, cost-effective, and timely cross- border payments?

Cross border payments have traditionally been slow, expensive, and almost the exclusive domain of wire transfers and corridor specific relationships between financial institutions. Key strategies for success in this arena include options for real-time/near-real time settlement to the recipient, a simpler customer experience across multiple channels, appropriate fraud and risk management controls, and opportunities to leverage infrastructure developments from non-government payment providers in cross border networks.

Safety

Q17. Payment security encompasses a broad range of issues including authentication of the parties involved in the transaction, the security of payment

databases, the security of software and devices used by end users to access payment systems, and security of the infrastructure carrying payment messages.

i. Among the issues listed above, or others, what are the key threats to payment system security today and in the future?

With future cloud oriented architectures and the expansion of participants under the goal of ubiquity, the ability to monitor and compartmentalize systems in the event of attacks or breaches will be critical. All participants will require protocols, recovery and communications processes to deal with information expediently and accurately.

ii. Which of these threats are not adequately being addressed?

The threat of delayed or non-communication among parties. Related to the above, the growth in both numbers and paths that payments cross will make communications more complex for sharing attack and breach information in a timely and efficient manner. This in fact could be improved in today's environment.

iii. *What operational or technology changes could be implemented to further mitigate cyber threats?*

Cloud security measures should be implemented to further mitigate cyber threats. Many participants will develop private clouds with strong security but this requires ongoing investments as well as interoperability or API standards with other private and public clouds. Leveraging cloud security such as The Clearing House Payments Co. LLC, Secure Cloud infrastructure may assist with industry standards. Tokenization of accounts at the point of payment creation will also mitigate these threats.

Q18. What type of information on threat awareness and incident response activities would be useful for the industry?

No response provided.

i. *How should this information be made available?*

No response provided.

Q19. What future payment standards would materially improve payment security?

As noted in other response areas, setting high standards for access to the payment systems, consistent requirements for all participants to conduct AML and risk screening and the tokenization of accounts will improve security.

i. *What are the obstacles to the adoption of security-related payment standards?*

The pace of change and the need to adopt and layer security capabilities to defend against threats make it challenging but not impossible to adopt security standards. If non financial institutions are not held to the same level of care that is mandated and regulated to financial institutions then payment security will be inhibited. While the costs to be borne by non financial institutions to meet standards are obstacles they are necessary for the protection and growth of digital payments which supports the desired outcomes.

Q20. What collaborative actions should the Federal Reserve Banks take with the industry to promote the security of the payment system from end to end?

No response provided.

Q21. Please share any additional perspectives on U.S. payment system improvements.

There have been many whitepapers on the role of the account and the roles of

banks with accounts. [1] TD believes that accounts and payments should be closely linked. For many account types the account is the payment scheme and is synonymous with terms such as; checks, credit and debit cards. The investments made in account due diligence, authentication and security provide significant benefits to the payment systems. Trust with consumers and businesses is established with the account and often extended to payments made from the accounts. Therefore the financial institution or the account issuers have important and ongoing roles with payments and the value of that relationship should be reflected in the ecosystem. Value should not only be attributed to the originator or to the next new interface that may be developed.

Very truly yours,

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[1] Global Payments Forum A NACHA International Payment Program "What will be the role of bank accounts be as payments evolve"
Consumers Union "Trapped at the Bank"