



CONFERENCE OF STATE BANK SUPERVISORS

January 24, 2014

Comments of the Conference of State Bank Supervisors on Payment System Improvement – Public Consultation Paper

The Conference of State Bank Supervisors (CSBS) appreciates the opportunity to comment on the Federal Reserve Banks’ “Payment System Improvement – Public Consultation Paper.” State supervisors have a keen interest in the Federal Reserve Banks’ efforts to improve the U.S. payment system. Unlike any single federal prudential regulator, most state banking regulators license and supervise all of the financial intermediaries in the payments system: banks, credit unions, and money transmitters. This broad supervisory portfolio provides state regulators with a unique interest in the U.S. payment system and how the payment system impacts financial institutions, businesses, consumers, and the general economy.

CSBS strongly supports the Federal Reserve Banks’ efforts to improve the U.S. payment system, and believes that an updated payment system would bring many benefits to participants, including faster and more efficient settlements. Emerging payment mechanisms and systems and changes in market participants necessitate an immediate and thoughtful look at the U.S. payment infrastructure. CSBS believes that the Federal Reserve Banks are uniquely positioned to coordinate improvements to the network of systems comprising the U.S. payment system, and we welcome their efforts to evaluate the need of moving to a ubiquitous, near-real-time payment system, and to help facilitate this process if necessary.

Since its formation, the Federal Reserve System has played an important role in the operations and stability of our payments system. Providing stability to the payments system was a key goal of the original Act that created the Federal Reserve. This role has continually been reaffirmed through legislative changes expanding the Federal Reserve’s authority.

In reviewing payments systems developments, CSBS would encourage examining if and how emerging non-bank payment providers pose risks to our existing system. Additionally, CSBS would welcome an assessment of what economic benefits emerging payments technology innovations could provide to financial institutions, consumers, businesses, and the general economy.

CSBS encourages the Federal Reserve Banks to determine why the U.S. payment system needs improvements and updates, and to explore in more detail what potential benefits and negative consequences might result from making significant changes to the U.S. payment system. Alternative forms of payment and the emergence of digital currencies are clearly drivers of change and awareness of the limitations of the traditional payment system. The Federal Reserve Banks will need to determine if these innovations represent a paradigm shift in expectation for payments.

As the Federal Reserve Banks move forward with facilitating improvements to the U.S. payment system, CSBS believes that any resulting system or network of systems should substantially remain within the formal banking system. Keeping the U.S. payment system within the banking system provides key benefits. Firstly, the regulated banking system is better positioned to provide necessary protections to consumers and payment system participants, especially as new payment technologies, systems, and processes are implemented. Secondly, maintaining the payment system within the formal banking system would also assist regulators and supervised financial institutions as they monitor and screen for risks, and would allow the Federal Reserve to better respond to payment system issues in times of crisis.

Importantly, efforts to keep the payment system within the banking system should not be “a race to the bottom.” Goals such as speed, anonymity, convenience, and lower cost are important, but ensuring that technology provides sufficient safeguards against fraud and other abuses is a critical component. Otherwise, consumers, businesses and the economy as a whole ultimately will lose the confidence that is required to underpin any successful system. CSBS believes that the Federal Reserve Banks should pursue a system that is safer, more cost effective, and faster, as any component alone is insufficient to ensure long-term viability.

The CSBS Board of Directors recently approved the formation of a Payment Systems Task Force to study many of these issues and the impact and role of state law. The work of this group will provide an important conduit to the Federal Reserve Banks as you undertake this initiative. We thank you for the opportunity to comment on this important initiative to improve the U.S. payment system and look forward to further engagement as initiatives move forward.

Sincerely,

A handwritten signature in black ink, appearing to read "John W. Ryan". The signature is fluid and cursive, with a long horizontal stroke at the end.

John Ryan
President and CEO