**Meeting Between Chair Powell, Governor Bowman, Staff of the Federal Reserve System, and the Community Depository Institutions Advisory Council**
**November 8, 2019**

**Participants:** Chair Jerome H. Powell, Governor Michelle Bowman, Ann Misback, Margaret Shanks, Joshua Gallin, Suzanne Killian, Robin Prager, Todd Vermilyea, Brian Tabit, William Tiernay, Maureen Yap, Brandon Howell, Darren Gersh, Nancy Riley, Mason Wesenberg, Aurite Werman, Joshua Smolevitz, Katie Ross, Jackie Smith, Yvette McKnight, Allison Lamb, Meaghan Shkreli, and Wanda Quick (Federal Reserve Board); Rebecca Gunn (Federal Reserve Bank of Atlanta); and James Fuchs (Federal Reseve Bank of St. Louis)

Dorothy A. Savarese, Tyrone E. Muse, Christopher D. Maher, T. Michael Price, Robert A. DeAlmeida, Alvin J. Cowans, Douglas S. Gordon, Margaret Oldner, Shari Laven, Brad Koehn, Joe Quiroga, and Richard M. Sanborn (CDIAC members); and Robert Davis (Consultant)

**Summary:** Board members and staff of the Federal Reserve System met with the Community Depository Institutions Advisory Council (CDIAC), an advisory group established by the Federal Reserve Board (Board) to provide input about the economy, lending conditions, and other issues of interest to community depository institutions.[1]

During the meeting, CDIAC members discussed faster payments in light of the Board's development of the FedNow Service, a round-the-clock, real-time payment and settlement service (Docket No. OP-1670). CDIAC members stressed that FedNow development should proceed expeditiously and that the service needed to be interoperable with other payment networks, including the payment network developed by The Clearing House. A CDIAC member noted that the ability to offer real-time processing of small dollar transactions through apps such as Venmo is crucial to attracting millennial customers and that a significant delay in implementing FedNow could put community banks at a competitive disadvantage with their nonbank and larger-bank competitors. The "Faster Payments" written information that CDIAC provided at the meeting is also attached.

The full Record of Meeting is available at www.federalreserve.gov/aboutthefed/files/CDIAC-meeting-20191108.pdf. The viewpoints expressed above and in the attachment are solely those of CDIAC.

Attachment

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[1] One representative from each of the local advisory councils at the twelve Federal Reserve Banks is selected to serve on CDIAC, which meets twice a year.

**Faster Payments**
The community banking sector appreciates that the Federal Reserve is becoming an operator through FedNow. We believe that having competing service providers will result in improved faster-payment solutions.

Community banks rely on core service providers to maintain their ledgers, facilitate payments, and manage loans. These technology providers make it possible for banks to serve their customers. But these providers usually are not quick to embrace change and large technology projects, which presents a challenge to the banks who use them.

Community banks that wish to offer faster-payments solutions will need to closely manage their relationships with core service providers to speed implementation. Core service providers offer new services in waves to their banking customers. Therefore, community banks that want to be early adopters of a new service will need to push their core service provider to move to the front of the line for implementation. Currently, implementation bottlenecks are limiting the pace of change.

Several community banks have begun the process to adopt real-time payments through RTP, The Clearing House's real-time payments network. Working with their core service providers, these community banks hope to process live transactions in 2020.

Community banks are also educating themselves about the implementation of FedNow and the ongoing management of the service. This process should become clearer when the Federal Reserve provides additional details on how the service will work.

The Council considered a four-part approach to improving the payment system that goes beyond FedNow.

Short Term: Consider making improvements to legacy payment systems, where infrastructure and rules already exist. Leveraging existing rails, such as ACH, electronic check, and ATM networks, to move money faster or to settle batches more often could be an interim step towards faster payments, a step that could be achieved with less expense and more immediate results than having to create a new payment rail. In addition, immediate settlement may not be required at this point.

Medium Term: Launch FedNow as soon as it can deliver a minimally viable product (MVP), that is, a simple real-time settlement service. This medium-term step would benefit banks by making it easier and faster to implement FedNow. The MVP should have scalable architecture so that additional features, such as interoperability with other products and the use of robust remittance data, could be added after the MVP launch.

Long Term: Launch a full-featured FedNow product that is interoperable with other similar products and that would allow complex remittance data to travel with the payments.

Longer Term: Consider future payment options beyond FedNow. This longer-term planning should begin now. Cryptocurrencies and other distributed-ledger-based products are currently in use and even being considered as potential currencies by other central banks. The Federal Reserve and the banking industry should begin preparing for payment systems that might be based on these newer technologies.

In addition, having enhanced fraud monitoring built into FedNow would benefit both the payment system and its users. For example, community banks spend a large amount of resources on compliance with the BSA/AML and OFAC requirements associated with payment transactions. As the operator of FedNow, the Federal Reserve will have end-to-end visibility into each faster payment, which would allow the Federal Reserve to manage risks more effectively. Risk management at this higher level would also alleviate a significant regulatory burden on community banks.