

*TCH Working Paper Calls for the Safe Evolution of the U.S.
Payments System and Recommends Future
Improvements*

*Working Paper Says Payments System Needs to Evolve to Deliver
New Value to Users, Support Appropriate Risk Management, and
Reward Innovation and Investment*

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New York – December 5, 2013 – The Clearing House (TCH) today issued a working paper entitled *U.S. Payment System: Recommendations for Safe Evolution and Future Improvements* that offers recommendations on how best to evolve the existing payments system. The working paper focuses on the need to ensure the safety, soundness and sustainable economics of the U.S. payment system and to continue to deliver superior payment services to consumers and businesses. The working paper is part of TCH’s ongoing discussions regarding the future of the U.S. payment system and serves as its response to the Federal Reserve Banks’ *Payments System Improvement – Public Consultation Paper* published in September. The paper also sets forth TCH’s own recommendations regarding optimal payment system evolution and outcomes.

To put these recommendations in context, TCH and the Federal Reserve Banks together are the payments system infrastructure and service providers for all wire transfers and automated clearing (ACH) in the U.S. The Clearing House Payments Company L.L.C. provides payment, clearing, and settlement services to its member banks and other financial institutions, clearing almost \$2 trillion daily and representing nearly half of the automated-clearing-house, funds-transfer, and check-image payments made in the U.S.

“As a leader in the payments system for 160 years, The Clearing House strongly supports payments innovation that is sustainable, market driven, and addresses demonstrated end-user needs, while preserving the safety and soundness of the payments system,” said James Aramanda, President and Chief Executive Officer, The Clearing House Association and Payments Company. “We recognize that the better aligned we are with the Reserve Banks about the future U.S. payment system, the more quickly and efficiently the payment system can evolve.”

The Clearing House proposes four guiding principles for planning and implementing the future U.S. payment system. TCH believes that a successful future payment system will:

1. **Provide an end user experience and functionality that fulfills needs that are not adequately met by existing payment systems.** Significant enhancements or changes to the payment system, including potentially faster clearing and settlement, must address actual, demonstrated needs to ensure that the new payment system capabilities provide additional value to end users.
2. **Set risk management and fraud protection standards that are appropriate for the essential characteristics of a payment (e.g., speed, value, debit or credit, etc.), rather than the clearing system or form of the payment.** A faster payment system will require that system participants synchronize the speed of their anti-fraud, AML, and OFAC processes with the speed of clearing and settlement. It may also require updated payment finality and dispute resolution rules that account for the changes in speed and risk. Additionally, higher-value payments, regardless of how they are initiated, present unique challenges for security and liquidity management.
3. **Be an open, global-ready platform.** By this we mean a payment system that is not limited to users of a single, proprietary platform but, similar to today's check and ACH systems, supports exchange between different payment operators. We also think that a system that adopts consistent global payment standards, and possibly supports multiple currencies, will assist financial institutions in serving the needs of their respective global customers.
4. **Provide economic models that ensure that all service providers in the payment system can expect a return on initial and ongoing investment.** The best way to achieve widespread participation, spur innovation, and identify applications that benefit customers is for payment service providers to have the opportunity to earn a reasonable return on their investment.

"The Clearing House and our owner institutions are actively engaged in strategic discussions to improve the payments system, including ACH," Mr. Aramanda said. "We believe the payments industry can work collaboratively to design and

implement enhancements that will ensure ongoing value and utility to the U.S. payment system.”

About The Clearing House Established in 1853, The Clearing House is the oldest banking association and payments company in the United States. It is owned by the world’s largest commercial banks, which collectively employ more than two million people and hold more than half of all U.S. deposits. The Clearing House Association L.L.C. is a nonpartisan advocacy organization representing – through regulatory comment letters, amicus briefs, and white papers – the interests of its owner banks on a variety of systemically important banking issues. The Clearing House Payments Company L.L.C. provides payment, clearing, and settlement services to its member banks and other financial institutions, clearing almost \$2 trillion daily and representing nearly half of the automated-clearing-house, funds-transfer, and check-image payments made in the U.S.

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