



**RTP Rules Interpretation
Third Party Service Providers and DI Payment Services**

Effective October 12, 2021

This interpretation is issued pursuant to RTP Operating Rule I.C. All capitalized terms that are not defined in this interpretation have the meanings ascribed to them in the RTP Operating Rules.

Issues

A nonbank service provider that offers services to depository institutions¹ to facilitate the depository institutions' payment activities ("DI Payment Services") has inquired as to:

1. whether the RTP System can be used to support its DI Payment Service offerings, including but not limited to, bill payments, account to account transfers, person-to-person (P2P) payments, disbursements and commercial payables;²
2. whether the RTP System can be utilized for specific DI Payment Service offerings, such that an RTP Participant is able to send and receive Payments for a specific DI Payment Service offering (i.e., bill payments) from the nonbank service provider;
3. whether the RTP System permits the segregation of different types of RTP activity and funding mechanisms, such that RTP Participants can utilize discrete DI Payment Services from multiple nonbank service providers and can utilize multiple Funding Agents that provide funding for discrete DI Payment Services, while also having the ability to provide their own funding as Funding Participants for other types of RTP activity;
4. whether a nonbank service provider, acting as a Third Party Service Provider, has the ability to designate and change Funding Agents on behalf of RTP Participants; and
5. clarification of TCH's approval and ongoing review standards for any funding arrangement between a Non-funding Participant and a Funding Agent.

Summary

As discussed below, a nonbank service provider can utilize RTP's Third Party Service Provider role to enable depository institutions, which are both the service provider's customers and Participants in the RTP System, to send RTP Payments as part of the service provider's DI Payment Service offerings.

¹ The nonbank service provider also offers some services directly to consumers and businesses. Those services are not addressed under this interpretation but instead would be governed by the Payment Service Provider provisions of the RTP Operating Rules.

² This interpretation may be relied on to support other service offerings provided by nonbank service providers to depository institutions to the extent such offerings facilitate activities that RTP Participants are permitted to conduct through the RTP System.

The RTP System permits the segregation of different types of RTP activity and funding mechanisms, such that RTP Participants can utilize discrete DI Payment Services from multiple nonbank service providers and can utilize multiple Funding Agents that provide funding for discrete DI Payment Services, while also having the ability to provide their own funding as a Funding Participant for other types of RTP activity.

A nonbank service provider, once designated by an RTP Participant to act as a Third Party Service Provider, may be authorized by the RTP Participant to designate and change Funding Agents on behalf of such RTP Participant.³ While all funding arrangements are subject to TCH's approval and ongoing review, absent a determination by TCH that (i) a proposed or existing funding arrangement between a Non-funding Participant and a Funding Agent is unreliable or creates unacceptable risk for the RTP System; or (ii) a proposed or existing Funding Agent creates unacceptable risk for the RTP System, TCH will approve funding arrangements and not require changes to existing arrangements, including an arrangement that a Third Party Service Provider has designated on behalf of a RTP Participant.

Rules

Only federally insured depository institutions may be RTP Participants. Therefore, in order to send RTP Payments as part of a service provider's DI Payment Service offerings (including, but not limited to, bill payments, account to account transfers, person-to-person (P2P) payments, disbursements and commercial payables), it will be necessary for the service provider's customers to become RTP Participants. In addition to meeting other operational and technical requirements of the RTP System, a RTP Participant must have a technical connection to the System through which RTP Payments and messages can be sent and received. An RTP Participant can choose to designate⁴ another party, referred to as a Third Party Service Provider (TPSP) under the RTP Operating Rules, to act as its agent⁵ to send and/or receive RTP Payments and other RTP messages using a technical connection established by the TPSP to the RTP System.⁶

The RTP System uses RTNs⁷ to distinguish RTP activity and funding among different Participants. Participants can use different RTNs to distinguish their RTP activity and related funding between multiple TPSPs and Funding Agent arrangements and/or activity for which they do not use a TPSP or Funding Agent. Participants that utilize a nonbank service provider's DI Payment Service offerings can designate that

³ If a TPSP anticipates that it will need to designate a Funding Agent for the RTP Participants that use its DI Payment Services, the TPSP should discuss this with TCH in advance.

⁴ A RTP Participant designates a TPSP by executing an Appointment of Third Party Service Provider agreement with TCH, which the TPSP also signs to acknowledge its agreement to serve as TPSP. Alternatively, in some cases a Participant may be able to designate its TPSP by agreeing to equivalent terms in its agreement with the TPSP.

⁵ A Participant that designates a TPSP is (i) fully responsible and liable to TCH and other Participants for the acts and omissions of its TPSP with respect to the RTP System and (ii) indemnifies TCH and other Participants against any losses, claims, liabilities, etc., arising from its TPSP's acts or omissions in connection with the RTP System. RTP Participation Rules III.F.

⁶ RTP Participation Rules III.A. A TPSP must satisfy RTP's Technical Specifications (RTP Participation Rules III.B.2) and comply with relevant provisions of the RTP Participation Rules and RTP Operating Rules (RTP Participation Rules III.E). TCH performs technical testing with TPSPs to determine if they can perform key RTP functions.

⁷ Each RTN in the RTP System is associated with Participant Identification number, which the system uses to identify a Participant for funding, connection, and other purposes.

service provider as their TPSP and have arrangements with the service provider to limit the RTP activity that the service provider supports to a specific TPSP-provided DI Payment Service. However, TCH has no responsibility to enforce such limitations. To the contrary, a Participant's designation of a TPSP authorizes TCH to rely on the TPSP designation for all RTP activity that the TPSP sends to or receives from the RTP system using the RTN associated with the TPSP-provided DI Payment Service. As a TPSP, a nonbank service provider can provide RTP Participants technology solutions that, among other things, allow the Participants' account holders to authorize and initiate payments, which the TPSP then sends to the RTP System as the technical agent of the Participant. The DI Payment Service offering provided by the TPSP must ensure that the RTP Payments authorized by the Participant's account holders are properly formatted for the RTP System and identify the account holder as the Sender and the Participant as the Sending Participant.⁸ In this way, while the TPSP is involved in formatting and routing the payments via the RTP System, it is not a Participant with respect to the payments.

Another requirement for a RTP Participant is that it must prefund its payment activity by providing funding to the RTP Joint Account at the Federal Reserve Bank of New York before sending Payments. The RTP Operating Rules permit a RTP Participant to either provide the funding itself or use a Funding Agent. Funding into the RTP Joint Account results in a position being established on the RTP ledger for the RTP Participant that provided the funding (whether directly or through a Funding Agent).⁹ A nonbank service provider cannot serve as a Funding Agent under the RTP Operating Rules because, as a nonbank, it does not have a Federal Reserve account. However, a Participant may authorize the nonbank service provider to designate the Participant's Funding Agent when the Participant designates the service provider as its TPSP for specific DI Payment Service offerings. The designated Funding Agent will then be required to provide funding for the RTP Participant (and any other Participants for which the TPSP has designated it) for the payment activity associated with the RTN of the RTP ledger position used by the RTP Participant for the TPSP's DI Payment Service offerings. The Funding Agent will also receive any disbursements of Excess Liquidity associated with the RTN of the ledger position used by the RTP Participant for the TPSP's DI Payment Service.

With limited exceptions for Funding Providers¹⁰, the RTP Operating Rules do not govern the terms between a Funding Agent and a RTP Participant (if any). Similarly, the RTP Operating Rules do not govern terms between a TPSP and a RTP Participant. Therefore, to support its DI Payment Service offerings, a TPSP that is authorized to designate a Funding Agent for a Participant can select a Funding Agent that holds an account for the TPSP. Like other Funding Agent arrangements, if TCH determines that a Funding

⁸ Similarly, if a TPSP is facilitating the receipt of an RTP Payment by one of its RTP Participant customers, the RTP Payment message will identify the financial institution that holds the receiver's account as the RTP Receiving Participant. The TPSP is not a party to the payment and should not be identified on the payment message.

⁹ If the designated Funding Agent is a Funding Provider under the RTP Operating Rules, a prefunded position is established for the Funding Provider. The Non-funding Participants for which the Funding Agent funds are permitted to use the Funding Provider's prefunded position, up to the amount of their individual Net Send Limits, as funding for the RTP Payments they send to the system.

¹⁰ The RTP Operating Rules require that Funding Providers and Non-funding Group Members "settle up" for RTP activity each Fedwire Funds operating day. See Rule VI.G.3. This Rule requirement may be satisfied by the Funding Provider authorizing and directing the TPSP to include this obligation in the TPSP's contract with the RTP Participant.

Agent that is proposed to support Participants' use of a TPSP's DI Payment Service is unreliable or creates unacceptable risk for the RTP System, TCH may not approve such Funding Agent and require a TPSP, as designated by Participants using the DI Payment Service, to make alternate funding arrangements with a different Funding Agent.¹¹ Once a funding arrangement has been established for a TPSP's DI Payment Service, unless TCH determines that (i) the funding arrangement is unreliable or creates unacceptable risk for the RTP System or (ii) the Funding Agent creates unacceptable risk for the RTP System, TCH may not require a change to the funding arrangement.

Additionally, at its own discretion, a TPSP has the ability to designate and change Funding Agents on behalf of a Participant. Further, the TPSP can have terms with its RTP Participant customers under which the RTP funding comes from and RTP disbursements go to the TPSP's account at the Funding Agent. The specific arrangements and flow of funds between the Participant, its TPSP, and its Funding Agent are not relevant to the RTP System as they fall outside the scope of the RTP legal framework.¹²

To the extent a Participant needs to segregate its RTP activity – such as segregating RTP Payments that are payments supported by a TPSP DI Payment Service from other RTP payments the Participant wants to send or receive (including through multiple TPSPs and/or to be able to segregate funding provided by multiple Funding Agents, and on its own behalf) – the Participant can do so by using different RTNs (or other RTP identification numbers provided by TCH) for different types of activity. Such segregation will result in a Participant having a different set of ledger positions (Net Position and, as applicable, Opening Prefunded Position and Current Prefunded Position) each of which can be supported by different funding arrangements.¹³ For example, a Participant could use a TPSP for RTP activity associated with one RTN and permit the TPSP to designate the Funding Agent for that activity while using another TPSP for RTP activity associated with another RTN and determine to self-fund the other activity.

Of course there are many other requirements that a RTP Participant must satisfy to use the RTP System including having back office systems that are able to process RTP Payments in real time 24/7, maintaining a fraud program, and ensuring that payments that it sends to the RTP System are permissible under the

¹¹ RTP Operating Rule VI.B.1.d. Such a determination could be made, for instance, if the Funding Agent is not managing liquidity appropriately such that payments sent by Participants that are using the DI Payment Service are rejecting at an unacceptable rate or, if the Funding Agent is a Funding Provider, TCH becomes aware that the Funding Provider is not complying with the requirement to “settle up” with Non-funding Group Members each Fedwire Funds operating day. Subject to TCH's responsibility to ensure that a funding arrangement does not increase risk to TCH, impair its risk management or disrupt the safe and orderly operation of the system, TCH would expect to provide a Funding Agent with an opportunity to rectify issues that arise and if an alternate funding arrangement is necessary, provide the TPSP a reasonable amount of time to put such an alternate funding arrangement in place.

¹² The RTP Operating Rules will likely alter the way in which the nonbank service provider manages liquidity for its payment services for RTP Participant customers to the extent that the service provider was relying on a split transaction model via ACH (or otherwise) in which it debited funds directly from the depository institutions' account holders prior or coincident to initiating payments. This is because under the RTP Operating Rules, a Sending Participant's ledger position (or that of its Funding Provider) must be prefunded before the payment may be made over the RTP System and it is the initiation of an RTP Payment that is the authorization to debit the RTP Participant's account holder.

¹³ The RTP Operating Rules provide that TCH may permit a Participant to have different funding arrangements for different RTP-enabled RTNs or TCH-issued RTP identification numbers. RTP Operating Rule VI.C.3.d.

RTP Operating Rules. While the RTP Operating Rules establish these requirements, each RTP Participant is left to determine how to satisfy the requirements. TCH recognizes that beyond serving as a technical connection to send and receive RTP Payments to and from the System, a TPSP may provide other services to depository institutions that are critical to the depository institutions' ability to process RTP Payments in accordance with the RTP Operating Rules.

In conclusion, under the RTP Operating Rules and supporting agreements, a TPSP is authorized to provide technology solutions to RTP Participants that serve as their front end interface to their accountholders, enhance the RTP Participants' back office operations to support real time 24/7 payments processing, format and route RTP Payment and other messages to the RTP System over an electronic connection managed by the TPSP, and work with a depository institution (a Funding Agent) to manage the liquidity needed by the RTP Participants with respect to the RTP Payments they send and receive through the TPSP.