

Conversations on*

Instant Payments

A CU*Answers Collaboration Group

Compliance Issues to Consider

March 20, 2024

Today's Topics

- A discussion with AuditLink on what you should be learning and considering when it comes to the new instant payment rails
- We do not have all the answers – so let's learn together!

Research Summary

RTP[®] Send: Starting the Research Project

REVIEW OF RESEARCH PERFORMED BY CU*ANSWERS TO DATE

Prepared for the CU*Answers Board of Directors
By Jim Vilker, VP Professional Services and Dawn Moore, EVP Client Experience
January 26, 2023

Introduction

Sending real time payments remains a moving target and early adopters are just beginning to understand the complexities of it. The number of payments are picking up but the originating financial institutions appear to be those that built the product through The Clearing House. FedNOWSM is slated to be released in July of 2023 but that also has been a date that most feel unsure of at this point. We also have uncovered that fact that unlike the ACH system, RTP[®] will not be interoperable, which means participants will either have to build an interface to both or partner with a third party that normalizes both to one interface. CUs would need to be on both rails in any case.

This document is a compilation of research, web conferences with firms developing third party interfaces, and firms who serve as settlement agents. This research is ongoing and at this point considered incomplete as many of the rules and interfaces nuances appear to be in flux and have not been given a final stamp of approval.

Components of Sending Real Time Payments

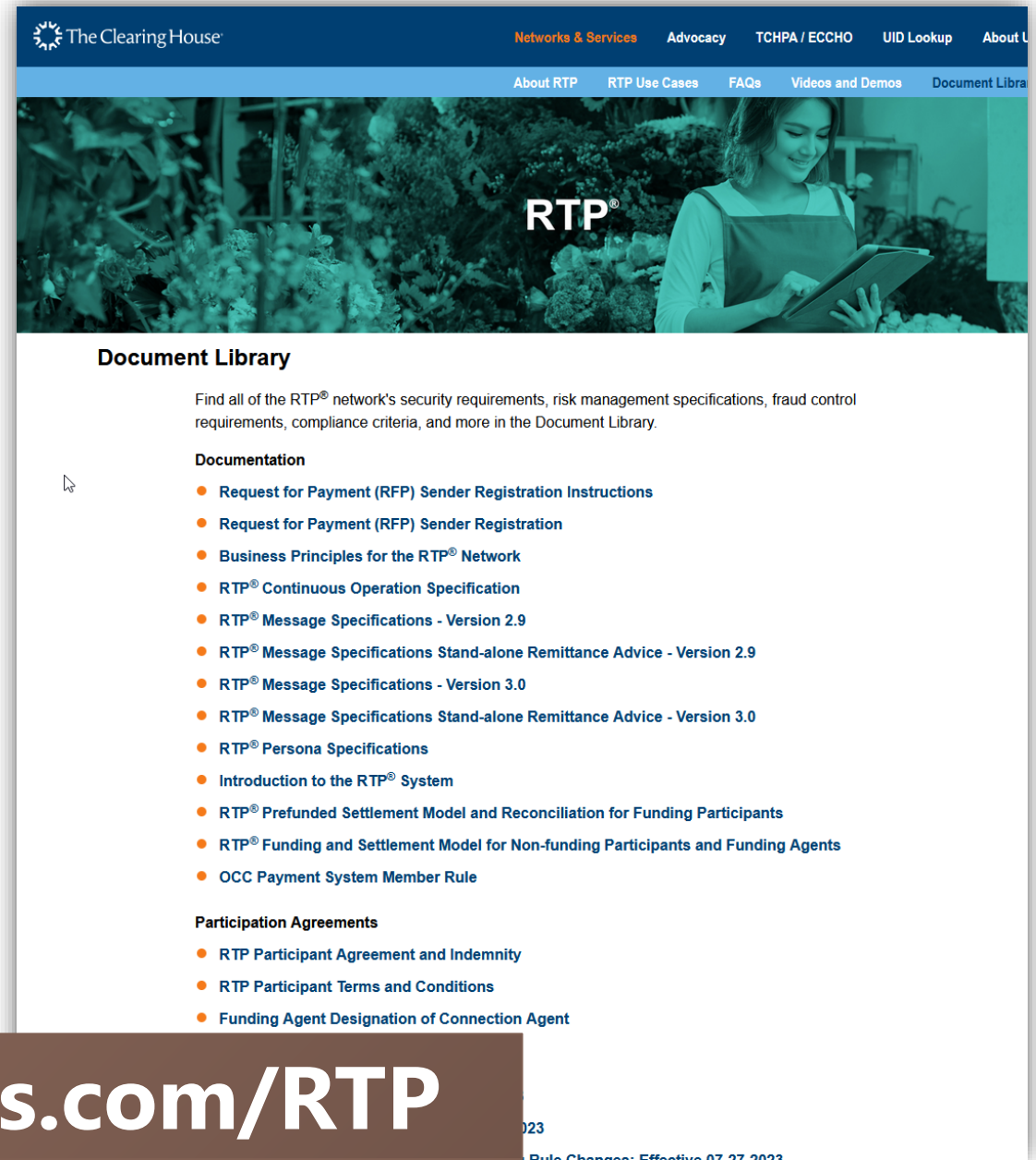
TCH Rules Effective 8/22/2022

- Participants must satisfy the requirements in the operating rules to participate in both sending and receiving, as well as requirements found in the technical specifications, fraud control requirements, and the RTP information security standards and requirements.
- No correspondent participation.
 - No foreign transaction (for now)
 - Sending on behalf of another FI with exceptions
- Can only initiate for the sender's account; may not exceed \$1,000,000; may establish limits.
- TCH does have a mechanism for requesting a return of funds for unauthorized payments and participants must reasonably cooperate amount themselves, but TCH will not be a participant in disputes unless TCH was at fault.
- Prior to submitting a payment FI must satisfy the prefunding requirements.
- Once the receiver clicks "accept" the sending agent is obligated to pay without recourse.
- Payment message cannot be canceled for any reason.
- TCH can monitor activity for erroneous or fraudulent activity but makes no warranties and assumes no risk.
- TCH has the right to fine participants for violations of the operating rules. (These fines are not small.)

Fraud Component

- Must at a minimum utilize multi-factor authentication (MFA) as outlined in the Risk Management and Fraud Control requirements.
- Must utilize a fraud and risk screening measure prior to submitting a payment message.
- Must regularly review performance of fraud monitoring system.
- Must report fraudulent activity to TCH in accordance with operating rules.

RTP® Docs You Should Review



The screenshot shows the RTP Document Library page on The Clearing House website. The page features a navigation bar with links for Networks & Services, Advocacy, TCHPA / ECCHO, UID Lookup, and About Us. Below the navigation bar is a header image of a woman in a green apron looking at a tablet, with the RTP logo overlaid. The main content area is titled "Document Library" and includes a brief description of the library's purpose. It is organized into two main sections: "Documentation" and "Participation Agreements", each with a list of document titles.

The Clearing House

Networks & Services Advocacy TCHPA / ECCHO UID Lookup About Us

About RTP RTP Use Cases FAQs Videos and Demos Document Library

RTP®

Document Library

Find all of the RTP® network's security requirements, risk management specifications, fraud control requirements, compliance criteria, and more in the Document Library.

Documentation

- Request for Payment (RFP) Sender Registration Instructions
- Request for Payment (RFP) Sender Registration
- Business Principles for the RTP® Network
- RTP® Continuous Operation Specification
- RTP® Message Specifications - Version 2.9
- RTP® Message Specifications Stand-alone Remittance Advice - Version 2.9
- RTP® Message Specifications - Version 3.0
- RTP® Message Specifications Stand-alone Remittance Advice - Version 3.0
- RTP® Persona Specifications
- Introduction to the RTP® System
- RTP® Prefunded Settlement Model and Reconciliation for Funding Participants
- RTP® Funding and Settlement Model for Non-funding Participants and Funding Agents
- OCC Payment System Member Rule

Participation Agreements

- RTP Participant Agreement and Indemnity
- RTP Participant Terms and Conditions
- Funding Agent Designation of Connection Agent

2023
Rule Changes: Effective 07-27-2023

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RTP® Docs You Should Review

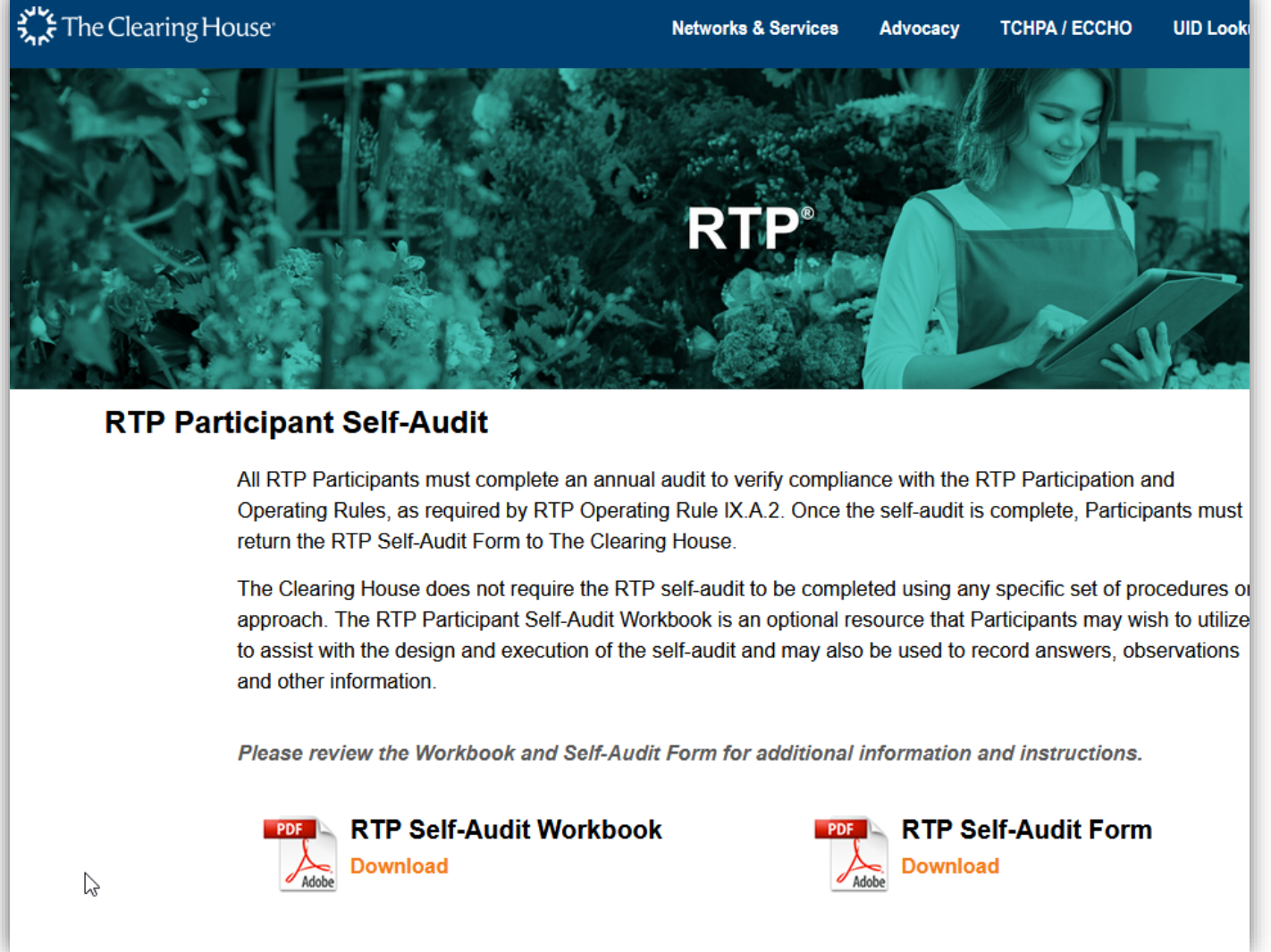
open.cuanswers.com/RTP

PSP Compliance Criteria Schedule

To the extent a PSP is subject to the application requirement set forth in the RTP Operating Rules, it shall, at all times and in connection with all RTP Payments, comply with the following PSP Compliance Criteria. Except as otherwise provided herein, where any criterion identifies a specific statute and/or regulation that applies to "financial institutions," the PSP shall be required to satisfy the obligations of a "financial institution" under such statute and/or regulation whether or not the PSP actually constitutes a "financial institution" thereunder.

1. **Customer Protections**
 - a. **FETA and Regulation E.** To the extent a PSP is providing Money Transmission Transactions for Consumers, the PSP must, at all times, comply with applicable Consumer protection requirements of the Electronic Fund Transfer Act and Subpart A of Regulation E.
 - b. **Prohibition on UDAAPs.** The PSP shall not engage in or commit any unfair, deceptive, or abusive acts or practices under federal or state law in connection with any EFT for or on behalf of a Consumer through the RTP System.
 - c. **Pass-Through Insurance Disclosure.** The PSP shall disclose to customers whether the customers' funds are covered by pass-through insurance by the Federal Deposit Insurance Corporation or through a similar government-sponsored insurance arrangement when such funds are in the PSP's possession.
2. **Prudential Requirements (Safety and Soundness) – Interagency Guidelines Establishing Standards for Safety and Soundness**
 - a. **Surety Bond Requirement.** The PSP shall establish and maintain an excess coverage surety bond that will apply in the event of a failure by the PSP to fulfill its obligations. The amount of the bond must be equal to or greater than the difference between the aggregate amount of all surety bonds held by the PSP pursuant to state laws governing money transmission, and the average daily money transmission volume of the PSP (inclusive of volume processed through the RTP System) during the prior calendar year. For newly operating PSPs, the amount of the bond must be equal to or greater than the difference between the aggregate of all surety bonds held by the PSP pursuant to state laws governing money transmission, and the PSP's anticipated average daily money transmission volume (inclusive of volume processed through the RTP system) during the PSP's first full calendar year of operation as a money transmitter. The required bond amount must be re-assessed and, if necessary, adjusted annually. TCH reserves the right to require a higher bond based on TCH's assessment of the risk of loss due to the

Remember the self audit!



The screenshot shows a website page with a dark blue header. The header contains the logo for 'The Clearing House' on the left and navigation links for 'Networks & Services', 'Advocacy', 'TCHPA / ECCHO', and 'UID Look' on the right. Below the header is a large image of a woman in a floral field looking at a tablet, with the text 'RTP®' overlaid. The main content area has a white background and contains the following text:

RTP Participant Self-Audit

All RTP Participants must complete an annual audit to verify compliance with the RTP Participation and Operating Rules, as required by RTP Operating Rule IX.A.2. Once the self-audit is complete, Participants must return the RTP Self-Audit Form to The Clearing House.

The Clearing House does not require the RTP self-audit to be completed using any specific set of procedures or approach. The RTP Participant Self-Audit Workbook is an optional resource that Participants may wish to utilize to assist with the design and execution of the self-audit and may also be used to record answers, observations and other information.

Please review the Workbook and Self-Audit Form for additional information and instructions.

At the bottom, there are two download links, each featuring a PDF icon and the Adobe logo:

- RTP Self-Audit Workbook** [Download](#)
- RTP Self-Audit Form** [Download](#)

FedNow[®] Docs You Should Review

The screenshot shows the Federal Reserve website's navigation and content for FedNow Service Resources. The header includes the logo, a search bar, and navigation links. The main content area features a sidebar with a list of resources and a main section with detailed descriptions for each resource.

THE FEDERAL RESERVE
FRBservices.org

Begin your search... [Search Icon]

APPLICATION SIGN IN SERVICE STATUS CONTACT

FINANCIAL SERVICES CENTRAL BANK TREASURY SERVICES FEDLINE SOLUTIONS FORMS RESOURCES EDUCATION NEWS ABOUT

CENTRAL BANK COVID-19 E-PAYMENTS ROUTING DIRECTORY FEDLINE SOLUTIONS FEES FINANCIAL SERVICES INDUSTRY LINKS

RESOURCE CENTERS RULES & REGULATIONS SERVICE & ACCESS SETUP TREASURY SERVICES

Home / Resources / Financial Services / FedNow[®] Service Resources

FedNow Service Resources

- FedNow Services Resources Home
- Operating Circular 8
- Operating Hours
- Operating Procedures
- FedNow Explorer (Off-site)

FedNow[®] Service Resources

The FedNow Service enables organizations to receive, send and process payments instantly. The resources below can help guide your organization in the adoption and implementation of the FedNow Service.

FedNow Service Operating Hours

Provides details about the hours of operation and processing schedule for the FedNow Service.

Operating Circular 8

OC 8, along with subpart C of Regulation J, applies to funds transfers made through the FedNow Service.

Operating Procedures

Provides operational details, including expectations, requirements and guidance for FedNow participants on the use of the service.

FedNow Explorer (Off-Site)

Offers various educational resources on instant payments and the FedNow Service.

[Top of Page](#)

open.cuanswers.com/FedNow

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Don't forget
to update
your risk
assessments!

Inherent risks to consider:

- Funnel accounts
- Credit push fraud
- Money mules



What
other
questions
can we
answer?

Stay In the Loop

CU*ANSWERS Products Solutions Resources Events

In the Kitchen: Learning about FedNow®

Updated December 8, 2023

Learning about FedNow®

The Research Project

Starting in the fall of 2022, CU*Answers began studying the evolving world of payment processing, specifically the RTP® Network (The ClearingHouse) and FedNow® (Federal Reserve) programs, and third-party partners who may be able to help us hook into these systems in order to receive funds for our credit unions on behalf of their members. Our goal was to understand the scope of potential projects, who we could partner with to connect, technical details about how the process works, and potential implications for fraud management.

For details about our RTP project, [review the separate recipe](#).

Remember that these are payment options *in addition to* regular ACH. Whatever we do with these new payment channels will have no effect on our current ACH processes and functionality.

*Status update as of December 2023: Starting in September the Fed finally opened the door for us to start working with them on the development for our direct connection between CU*BASE and the Fed. After agreements were signed (there was a lot of paperwork) we are now meeting regularly for both the technical/programming side of things and learning the Fed's onboarding process. We are currently wading through voluminous technical specifications and working on our own design specs for the development we'll be doing.*

open.cuanswers.com/FedNow

open.cuanswers.com/RTP

CU*ANSWERS Products Solutions Resources

In the Kitchen: Learning about RTP®

Updated February 2, 2024

Learning about RTP®

The Research Project

Starting in the fall of 2022, CU*Answers began studying the evolving world of payment processing, specifically the RTP® Network (The ClearingHouse) and FedNow® (Federal Reserve) programs, and third-party partners who may be able to help us hook into these systems in order to receive funds for our credit unions on behalf of their members. Our goal was to understand the scope of potential projects, who we could partner with to connect, technical details about how the process works, and potential implications for fraud management.

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WE NEED YOUR INPUT! LEARN MORE ABOUT WHAT WE'RE DOING AND LEND YOUR VOICE TO OUR EFFORTS BY JOINING THE CONVERSATIONS ON INSTANT PAYMENTS GROUP!

What We've Learned

In September and October we met with representatives from both Corp One and Vizo to get a brain dump on what they know about both FedNow® and RTP® and what their

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Thanks for your feedback!

Post any additional
comments in the Kitchen

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