

## **FEDERAL RESERVE SYSTEM**

### **Docket No. OP – 1670. Federal Reserve Actions to Support Interbank Settlement of Faster Payments**

**AGENCY: Board of Governors of the Federal Reserve System**

**ACTION: Response to Notice and request for comment.**

According to the notice,

“The Board of Governors of the Federal Reserve System (Board) has determined that the Federal Reserve Banks (Reserve Banks) should develop a new interbank 24x7x365 real-time gross settlement service (FedNow) with integrated clearing functionality to support faster payments in the United States. The Board is requesting comment on modifications to the FedNow Service or other actions that would further reduce or eliminate potentially adverse effects without significantly compromising the anticipated public benefit associated with the service.”

This comment concerns the social impact of the FedNow Service.

The Federal Reserve Board announced that the Federal Reserve Banks will develop a new round-the-clock real-time payment and settlement service, called the FedNow<sup>SM</sup> Service, to support faster payments in the United States.

This is a direct response to the threat posed by digital currencies and blockchain. According to one Fed official, "Last summer, the U.S. Treasury recommended that 'the Federal Reserve move quickly to facilitate a faster retail payments system, such as through the development of a real-time settlement service, that would also allow for more efficient and ubiquitous access to innovative payment capabilities.'”

We believe this effort requires a proof-of-authority quantum computing based blockchain system. (For more on blockchain, see: What is Bitcoin? How does it relate to blockchain? Henry Zhang, Creative Investment Research Impact Investing Intern. University of Toronto. Online at: <https://creativeinvest.com/crypto/bitcoinfoaq.html> )

As we noted in our paper "Blockchain, Cryptocurrency and the Future of Monetary Policy," confidential, not-for-distribution research sent to select members of the House Financial Services Committee, it is critical to understand that bitcoin was created in direct response to the failure of global regulators to protect the public in the years leading up to the financial crisis of 2007/2008. Thus, the ethical and monetary

functionality of cryptocurrency is superior to that of paper money. Eventually, cryptocurrency is going to dominate.

One of the reasons for this dominance is the speed with which transactions can be completed on a blockchain enhanced by quantum computing technologies.

As also noted in our paper,

"The main economic attributes of a technically effective currency rests on three functions: as a unit of account, a store of value and as a medium of exchange. A unit of account is a common measure for the value for goods and services, the store of value is the way in which we store wealth in order to transfer purchasing power from the present to the future, and the medium of exchange function dictates which item is accepted for the payment of goods and services. In recent history, these functions have been fulfilled by fiat currencies backed by central banks across both developed and developing nations. Through monetary policy manipulation, the key attraction of these currencies – price stability and widespread acceptance – is implemented through a central banking system, enjoying a great deal of trust globally.

But there is a fourth function of money: as a means of social control. The centralized monopoly over the functions of money held by sovereign governments and central banks has generated great income and wealth imbalances. Concerns about a lack of central bank performance with respect to financial inclusion, income inequality, economic system stability and the tendency of central banks to intermeditate on behalf of large financial institutions supported the creation of cryptocurrency"

As we noted in a second paper " Is FedCoin Feasible?" another confidential, not-for-distribution research paper sent to select members of the House Financial Services Committee, we suggest the Board focus on using an enhanced Bitcoin blockchain to "support depository institutions' provision of end-to-end faster payment services and would provide infrastructure to promote ubiquitous, safe, and efficient faster payments in the United States."

# APPENDIX

## Background

William Michael Cunningham holds a Master's in Economics and an MBA in Finance, both from the University of Chicago, and is also a graduate of Howard University.

Mr. Cunningham manages an investment research firm, Creative Investment Research. The firm researches and creates Environmental Social and Governance/Corporate Social Responsibility/Impact and socially responsible investments and provides economic analysis services. See: *"Impact Investing, Blockchain, and Crowdfunding"* in the *Journal of Financial Planning*, September 2018, for more information. <https://www.onefpa.org/journal/Pages/September-2018%20-%2010-Questions.aspx>

Creative Investment Research was founded in 1989. The firm was formerly in the pool of Corporate Governance Advisors and Diversity Investing Advisors to CalPERS. On November 16, 1995, Mr. Cunningham launched one of the first finance websites at [www.ari.net/cirm](http://www.ari.net/cirm) (now [www.creativeinvest.com](http://www.creativeinvest.com)).

My specific experience with the Board of Governors of the Federal Reserve System (the Fed) leads us to question unfair credit allocations to selected, non-minority banking interests, to the detriment of the country's Black residents. Many non-minority banks, insurance companies, mutual funds and automobile firms received billions in assistance in the years following the financial crisis of 2008. Not only did few Black-owned banks receive assistance, but the ones that did were the wrong banks from a social impact perspective. (See: "Black owned bank has few urban loans. OneUnited sought aid as community 'beacon.'" *The Boston Globe*, March, 2009. Online at: <https://www.creativeinvest.com/OneUnitedBostonGlobe2009.pdf> )

The result is that black banks are now on the verge of extinction.

In 1995, we suggested the Fed purchase mortgage backed securities (MBS) originated by Black banks as part of FOMC operations. The Fed, under Greenspan, declined, saying that only Treasury securities were appropriate collateral, but after the 2008 financial crisis, the Fed has purchased trillions in securities, helping white owned banks, broker dealers, insurance companies and investment banks.

This is emblematic of an institution that damages the economic interests and human rights of Black citizens. (DC has the highest Black maternal mortality rate in the US. We suspect that if white or Jewish women were dying at these rates the Board would have taken some indirect action to deal with the problem.)

As I discussed in testimony to the DC City Council, DC also has one of the highest rates of HIV infection, the highest Black/White income disparity and the most rapid gentrification in the United States.

The Board believes that community economic development equals real estate development, despite clear evidence that this focus does little to actually improve the lives and serve the needs of African Americans. The lives of black citizens have, for some 400 years, been considered of lesser importance than those of white citizens. This is confirmed by the historical record. Our claim is not that black lives are more valuable than white lives. The claim is simply that the lives of black citizens have, with the support of the state, been undervalued. (See:

<https://www.creativeinvest.com/diversityinvestingnews.html> )

### **Track Record**

The firm and Mr. Cunningham have worked to repair the damage caused by unethical institutions, as shown by the following:

On July 3, 1993, we wrote to Mary Schapiro, the former Chair of the US Securities and Exchange Commission (SEC), to notify the Commission about a certain, specific investing scam, "the Nigerian Letter scam." A timely warning was not issued to the investing public.

We designed one of the first mortgage security backed by home mortgage loans to low and moderate income persons and originated by minority-owned institutions. (See: Security Backed Exclusively by Minority Loans, The American Banker. Friday, December 2, 1994. Online at

<http://www.minoritybank.com/cirm24.html> )

On June 15, 2000, Mr. Cunningham testified before the House Financial Services Committee on H.R. 3703, the Housing Finance Regulatory Improvement Act. I warned that ethical issues at both Fannie Mae and Freddie Mac were at risk of significantly damaging the home mortgage marketplace. (See:

<https://www.creativeinvest.com/trackrecord.html> )

In 2001, Mr. Cunningham designed a mortgage refinancing and investing vehicle for victims of predatory lending that led to the creation of targeted community development investments. (See:

<http://www.creativeinvest.com/remediation.pdf> )

On December 22, 2003, our Fully Adjusted Return<sup>®</sup> Methodology signaled the probability of system-wide economic and market failure. (See page 6:

<http://www.sec.gov/rules/proposed/s71903/wmccir122203.pdf> )

On Monday, April 11, 2005, Mr. Cunningham testified before Judge William H. Pauley III in the U.S. District Court for the Southern District of New York on behalf of investors at a fairness hearing regarding the \$1.4 billion dollar Global Research Analyst Settlement.

On February 6, 2006, statistical models created using the firm's Fully Adjusted Return<sup>®</sup> Methodology confirmed that system-wide economic and market failure was a growing possibility. (See page 2:

<http://www.sec.gov/rules/proposed/s71005/wcunningham5867.pdf> )

On Oct. 5, 2006, foreshadowing and predicting the rise of cryptocurrencies, Mr. Cunningham wrote a comment letter to the SEC that stated: "competitive advantage with respect to capital access is available

to any country with significant economic potential and a modest telecommunications infrastructure." <https://www.sec.gov/comments/4-526/4526-1.pdf>

On June 18, 2009, Mr. Cunningham testified before the House Ways and Means Select Revenue Measures Subcommittee at a joint hearing with the Subcommittee on Domestic Monetary Policy and Technology of the Financial Services Committee: Testimony on the New Markets Tax Credit Program. (See: <https://financialservices.house.gov/media/file/hearings/111/printed%20hearings/111-47.pdf> )

In September, 1998, Mr. Cunningham opposed the application, approved by the Federal Reserve Board on September 23, 1998, by Travelers Group Inc., New York, New York, to become a bank holding company. I warned that the merger would eventually lead to significant problems in the marketplace. See: <https://www.creativeinvest.com/OppositionToCitigroupTravelersMerger.pdf>

In 2018, we worked on Federal legislation to help Black banks, HR 41. See: <https://www.hr41.info>

In 2006, 2007 and 2008, we created a fund to provide capital to women and minority owned banks. We sought approval as a bank holding company for this fund. A staff member at the Federal Reserve, the agency responsible for approving bank holding company applications, told us that unless he worked with a specific lawyer at a specific law firm, the application would be denied. Mr. Cunningham declined to work with the law firm. The application was denied. Thus our statement to Black Enterprise Magazine that "Banking regulators have a policy of keeping black banks small and of keeping new black entrants out," See: <https://www.blackenterprise.com/executives-working-to-create-black-owned-holding-company/>

Federal Appeals and lower courts have accepted several "Amicus Curiae" or "Friend of the Court" briefs we filed in signal cases concerning financial marketplace structure and fraud cases:

The U.S. Court of Appeals for the District of Columbia Circuit accepted a "Friend of the Court" brief filed in Mozilla Corporation vs. the Federal Communications Commission (net neutrality). <https://www.prlog.org/12729944-william-michael-cunningham-files-amicus-brief-in-net-neutrality-case-18-cv-1051.html>

Amicus Brief in Fiduciary Rule Case (16-cv-1035): <https://www.prlog.org/12573252-william-michael-cunningham-files-amicus-brief-in-fiduciary-rule-case-16-cv-1035.html>

Amicus Brief in Met Life v FSOC (16-5086): <https://www.prlog.org/12570202-william-michael-cunningham-files-amicus-brief-in-met-life-fsoc-16-5086.html>

Amicus Brief in Galvin v SEC (15-1150): <https://www.prlog.org/12499745-william-michael-cunningham-files-amicus-brief-in-galvin-sec-15-1150.html>

Amicus Brief in US vs. S&P (US District Court, Central District CA): <https://www.prlog.org/12256590-william-michael-cunningham-files-amicus-brief-in-us-vs-sp-us-district-court-central-district-ca.html>

Revised brief in SEC vs. Citigroup (2nd Cir Ct of Ap): <https://www.prlog.org/11948760-william-michael-cunningham-files-revised-brief-in-sec-vs-citigroup-2nd-cir-ct-of-ap.html>

Also see:

Our June 11, 2016 forecast predicting the election of Donald J. Trump: Why Trump Will Win.

<https://www.linkedin.com/pulse/why-trump-win-william-michael-cunningham-am-mba/>

[Global Market Turmoil Graphic](#) and [Financial Crisis Calendar Graphic](#), Creative Investment Research, Inc., December, 2008 and November, 2009.