

Federal Reserve to develop real-time gross settlement service to support faster payments



In early August, the Federal Reserve announced plans for the Reserve Banks to build and operate the FedNowSM Service. This new interbank real-time gross settlement service with integrated clearing functionality will operate 24 hours a day, seven days a week, 365 days a year to support faster payments in the United States. Formal comments on all aspects of the proposed service are being sought through a [Federal Register notice](#) through November 7, 2019.

Five things you need to know

The FedNow Service can help close the U.S. payments gap

When you make payments via check, debit card, Automated Clearing House (ACH) or payment app, it can take as long as a few days for the recipient to get access to the money. Funds would be available *immediately* via digital instant payment services built on a Federal Reserve real-time retail payments infrastructure.

That means friends can quickly settle a lunch tab, workers can get real-time access to their wages, and people who live paycheck to paycheck can receive funds and pay their bills immediately. Faster access to sales revenue also could be a game-changer for small businesses struggling with cash flow.

Payment transfers require *interbank clearing and settlement*, or the movement of funds and associated information between financial

institutions. Today, there's a gap in the United States between digital transaction capabilities and the underlying payment settlement functionality. Current payment services – though often described as “instant” – typically rely on legacy systems that were not designed to support real-time payments. On the back end, deferred settlement of funds transfers essentially creates an “IOU” between financial institutions that could present real risks to our financial system in times of stress. Real-time gross settlement of faster payment transactions aligns the speed of settlement to the speed of the underlying payment.

The FedNow Service can help achieve safe and efficient real-time payments for all

As the nation's central bank, the Federal Reserve has a unique ability to provide

settlement between financial institutions without introducing credit and liquidity risks – consistent with its objective to foster the efficiency, integrity and accessibility of the U.S. payment system. The Federal Reserve Banks currently provide check processing, ACH and wire payment services directly or indirectly to more than 10,000 financial institutions, alongside private-sector providers. Likewise, the FedNow Service will operate alongside the private sector to ensure equitable access to banks and credit unions of all sizes, across all regions of the country, so that individuals and organizations everywhere have access to real-time payments.

Having more than one real-time gross settlement service for faster payments provides redundancy to help ensure our payment system's overall resiliency, just like the multiple operators in check, ACH, wire and card services. Similarly, having more than

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one faster payments settlement service is likely to improve faster payments efficiency and service quality, lower prices, encourage higher adoption rates, and facilitate private-sector innovation and development of new use cases. The Federal Reserve will continue to explore paths to achieve nationwide reach of faster payments, including interoperability between different real-time payment systems.

FedNow Service features under consideration

The planned FedNow Service would allow real-time, payment-by-payment, final settlement of interbank obligations through debits and credits to financial institutions' balances in accounts at the Reserve Banks. Its clearing functionality would allow financial institutions to exchange information needed to make debits and credits to the accounts of their customers. Features under consideration include:

- Processing individual credit transfers valued at \$25,000 or less in real time (within seconds) on a 24x7x365 basis

- Settling payments through debits and credits to balances in financial institutions' master accounts at the Reserve Banks, with an end-of-day balance recorded for each day of the week
- Providing liquidity through intraday credit on a 24x7x365 basis under the same terms and conditions as for current Federal Reserve services
- Adhering to the ISO® 20022 standard and providing access through FedLine® connections
- Allowing participating financial institutions to designate a service provider to submit or receive payment instructions on their behalf and settle payments in the account of a correspondent bank

The Federal Reserve also is exploring expansion of its Fedwire® Funds Service and National Settlement Service operating hours. This could improve the efficiency of the joint account structure available to payment services and private-sector clearing networks, and provide other benefits to financial markets broadly.

What happens next

The Federal Reserve must make numerous decisions as it develops its FedNow Service. The Federal Reserve Board of Governors published a *Federal Register* notice in August 2019 to request formal comments on the service's desired features and functionality. Once we've assimilated the industry's feedback and determined initial features, functionality and a development path, a more detailed service description will be published in a subsequent *Federal Register* notice. We anticipate the service will be available in 2023 or 2024.

Where to find more information

- Read the August 2019 *Federal Register* [notice](#) at [FederalRegister.gov](https://www.federalregister.gov) (Docket No. OP-1670)
- Visit FedPaymentsImprovement.org and join the [FedPayments Improvement Community](#)
- Follow us on social media: [@FRBservices](#), [@FedPayImprove](#) and [FedPayments Improvement on LinkedIn](#)

Central banks and faster payments settlement

Central banks worldwide have a foundational role in settlement of obligations between financial institutions. Central banks in various countries have changed their settlement services to support faster payments.

In the United States, the Faster Payments Task Force of industry stakeholders requested in its 2017 final report that the Federal Reserve develop a 24x7x365 settlement service to support faster payments and explore and assess the need for other Federal Reserve operational roles in faster payments. The U.S. Treasury subsequently recommended that the Federal Reserve move quickly to facilitate a faster retail payment system. As part of its due diligence before making a decision, the Federal Reserve Board of Governors published a 2018 *Federal Register* notice that received more than 400 comments representing over 800 organizations. More than 350 commenters directly addressed the question posed in the notice about whether the Federal Reserve should develop an interbank settlement service for faster payments – 90% were supportive.

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