Progress on Faster Payments Settlement Assessment

Federal Register Notice

Susan Foley
Senior Associate Director
Board of Governors of the Federal Reserve System
Purpose of the Federal Register Notice

• Present potential actions the Fed could take to further industry goals of ubiquitous access to safe and efficient faster payments

• Seek public comments on which, if any, of these actions the Fed should pursue further
What is a Settlement Service?

End-User Service

Sender

Sender’s account debited

Clearing

Clearing Intermediary

Bank A

Bank B

Receiver

Receiver’s account credited

Settlement

Settlement Service

Bank A’s account

Bank B’s account

Payment message flow

Interbank funds flow
Real-Time Gross Settlement

The Fed believes real-time gross settlement (RTGS) would provide the safest and most efficient infrastructure for settlement of faster payments

- Speed of settlement aligned to speed of underlying payment
- Interbank settlement risk inherently avoided
- Clearing functions potentially simplified
- Globally, new implementations of faster payment settlement services are based on RTGS model
- Deferred net settlement model has been commonly used, but requires management of interbank credit risk

Key Question: Is RTGS the appropriate strategic foundation for interbank settlement of faster payments in the United States?
Potential Fed Actions to Support Faster Payments

Objective: Promotion of ubiquitous, safe, and efficient faster payments in the United States through facilitation of real-time interbank settlement

Two potential Fed actions:

1. Develop a 24x7x365 RTGS Settlement Service for faster payments

2. Develop a Liquidity Management Tool to support RTGS services
Potential 24x7x365 RTGS Settlement Service
Potential 24x7x365 RTGS Settlement Service

Real-time, interbank payment-by-payment messaging and settlement in Federal Reserve accounts

24x7x365: Operating around the clock, every day (weekends and holidays)

Full payment information (clearing and settlement) carried in payment message

Available to depository institutions eligible to hold a Federal Reserve account
  ▪ Agents could submit payments on behalf of a depository institution
  ▪ Access through Reserve Bank channels (FedLine)

End-of-day balances recorded for each day of the week
Potential 24x7x365 RTGS Settlement Service

End-User Service

Sender
Sender's account debited

Bank A

Clearing

Bank B
Receiver's account credited

Settlement Service

Bank A’s account
Payment message flow

Interbank funds flow
Bank B’s account
Key Questions to Ponder

• Will there be sufficient demand for faster payments in the next 10 years to support the development of a Fed service?
• What adjustments would the industry and its customers need to make to operate in a 24x7x365 environment?
• What is the ideal time to market? When would be “too late”?
• How important is interoperability between RTGS services for faster payments to achieve ubiquity?
• Would the Fed’s action hasten or inhibit industry adoption of faster payment services?
Potential Liquidity Management Tool
Potential Liquidity Management Tool

• A way to move money outside standard business hours between a master account and another Federal Reserve account used to support 24x7x365 real-time settlement services for faster payments

• Potential functionality
  • Bank-initiated transfers
  • Agent-initiated transfers
  • Automatic transfers/standing instructions
Key Questions to Ponder

• Will there be sufficient demand to support the development of a liquidity management tool?

• How much would the tool help foster ubiquitous access to safe and efficient faster payments?
Overall Questions to Ponder

- Should the Fed develop in tandem a 24x7x365 RTGS Settlement Service and Liquidity Management Tool? Should the Fed pursue only one, or neither?

- What other actions might help achieve ubiquitous, nationwide access to safe and efficient faster payments?

- Beyond payment services, are there other actions the Fed could take under its existing authority to achieve the goal?
WRAP-UP

• Consider “questions to ponder” for tomorrow’s breakout groups

• Written responses – we need to hear from you by the comment deadline, December 14!

• Timeline for next steps