POTENTIAL FEDERAL RESERVE ACTIONS TO SUPPORT INTERBANK SETTLEMENT OF FASTER PAYMENTS
• Provide an overview of faster payments and the role of the Federal Reserve
• Discuss interbank settlement concepts and real-time gross settlement for faster payments
• Present potential Federal Reserve actions from the recently-released Federal Register Notice
  • 24x7x365 RTGS Settlement Service
  • Liquidity Management Tool
• Present key questions in the Federal Register Notice
• Open up for discussion
FASTER PAYMENTS AND THE ROLE OF THE FEDERAL RESERVE
The digital era has fundamentally changed the nature of everyday interactions and commerce.

A gap has emerged between the capabilities of traditional payment methods and the payment capabilities expected in the digital era – fast, convenient, accessible.

Faster payments address this gap by allowing payments to be sent and received immediately, and at any time.

The Federal Reserve and the payment industry have been working together to determine the best path forward, such that the benefits of faster payments can be enjoyed broadly by the public.
THE GOAL: A ROBUST RETAIL PAYMENT SYSTEM FOR THE FUTURE

Today, some payments may seem “fast,” but in reality inefficiencies, delays, and risks remain:

- Recipients may not be able to broadly use funds received instantly
- Senders can’t reach anyone they want nationwide
- Interbank settlement is often deferred, creating risk

Key Consideration:
A robust retail payment system for the future requires a payment infrastructure that can support and sustain continued innovation in safe, broadly accessible faster payment solutions
In 2015, the Federal Reserve issued *Strategies for Improving the U.S. Payment System*, a multi-faceted plan to enhance the speed, safety and efficiency of the U.S. payment system.

In 2017, the industry asked the Federal Reserve to develop a 24x7x365 settlement service for faster payments.

The industry’s request reflects the Federal Reserve’s foundational role in settlement of interbank obligations.

The resulting Federal Register Notice presents potential actions that could support a safe, modern payment infrastructure for interbank settlement of faster payments.
INTERBANK SETTLEMENT CONCEPTS AND REAL-TIME GROSS SETTLEMENT FOR FASTER PAYMENTS
WHAT IS A SETTLEMENT SERVICE?

End-User Service

Sender
Bank A's account debited

Clearing

Clearing Intermediary

Payment message flow

Settlement

Settlement Service

Bank A's account

Bank B's account

Receiver
Bank B's account credited

Interbank funds flow
The Federal Reserve believes real-time gross settlement (RTGS) – payment-by-payment settlement in real time – 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 settlement services in support of faster payment are typically based on RTGS

Key Question in the Federal Register Notice:
Is RTGS the appropriate strategic foundation for interbank settlement of faster payments in the United States?
Objective: Promotion of ubiquitous, safe, and efficient faster payments in the United States through facilitation of real-time interbank settlement

Potential Federal Reserve actions:

• Develop a 24x7x365 RTGS Settlement Service for faster payments
• Develop a Liquidity Management Tool to support RTGS services
POTENTIAL 24x7x365 RTGS SETTLEMENT SERVICE
POTENTIAL 24x7x365 RTGS SETTLEMENT SERVICE

- Real-time, payment-by-payment interbank 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

Bank A's account

Payment message flow

Clearing

Bank B

Receiver’s account credited

Bank B’s account

Interbank funds flow

Settlement

Settlement Service

Receiver

Receiver's account credited

Payment message flow

Interbank funds flow
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
STRATEGIES FOR IMPROVING THE U.S. PAYMENT SYSTEM

POTENTIAL LIQUIDITY MANAGEMENT TOOL

Sender
Bank A
Sender's account debited
Bank A's ledger entry
Joint Account
Bank A's master account

End-User Service

Clearing
Bank B
Receiver's account credited
Bank B's ledger entry
Private-Sector Settlement Service

Settlement

Reserve Banks

Receiver

Payment message flow
Interbank funds flow
Liquidity Transfers
KEY QUESTIONS IN THE FEDERAL REGISTER NOTICE
QUESTIONS ABOUT POTENTIAL 24x7x365 RTGS SETTLEMENT SERVICE

• Will there be sufficient demand for faster payments to support the development of this service?
• What is the ideal time to market for this service?
• What adjustments would the industry and its customers need to make to operate in a 24x7x365 environment?
• How would the demand for, and the cost of using this service be impacted by design features such as seven-day accounting, use of dedicated settlement accounts, etc.?
• Are auxiliary services, such as a payment directory or fraud prevention services, needed for this service?
• How critical is interoperability between RTGS services for faster payments to achieving ubiquity?
QUESTIONS ABOUT POTENTIAL LIQUIDITY MANAGEMENT TOOL

• Will there be sufficient demand to support the development of this tool?

• Would this tool need to be available 24x7x365, or alternatively, during certain defined hours on weekends and holidays?

• Could this tool be used for purposes other than to support real-time settlement of retail faster payments?

• How much would this tool help foster ubiquitous access to safe and efficient faster payments?
HOW TO SUBMIT YOUR COMMENTS

• The Federal Reserve wants to hear from you!
• The public comment period runs through **December 14, 2018**
• Please provide your perspective through any of these channels:
  • Web site: follow instructions at www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm
  • E-mail: regs.comments@federalreserve.gov
    Include “Docket number OP-1625” in the subject line
  • Fax: (202) 452-3819 or (202) 452-3102
  • Mail: Ann Misback, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, DC 20551.