

In Pursuit of a Better Payment System



POTENTIAL FEDERAL RESERVE ACTIONS TO SUPPORT INTERBANK SETTLEMENT OF FASTER PAYMENTS

STRATEGIES FOR IMPROVING THE U.S. PAYMENT SYSTEM

© 2018 Federal Reserve Banks. Materials are not to be used without consent.

TOWN HALL AGENDA



- 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

STRATEGIES FOR IMPROVING THE U.S. PAYMENT SYSTEM

© 2018 Federal Reserve Banks. Materials are not to be used without consent.

U.S. PAYMENT SYSTEM AT A CROSSROADS

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

THE ROLE OF THE FEDERAL RESERVE

- 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



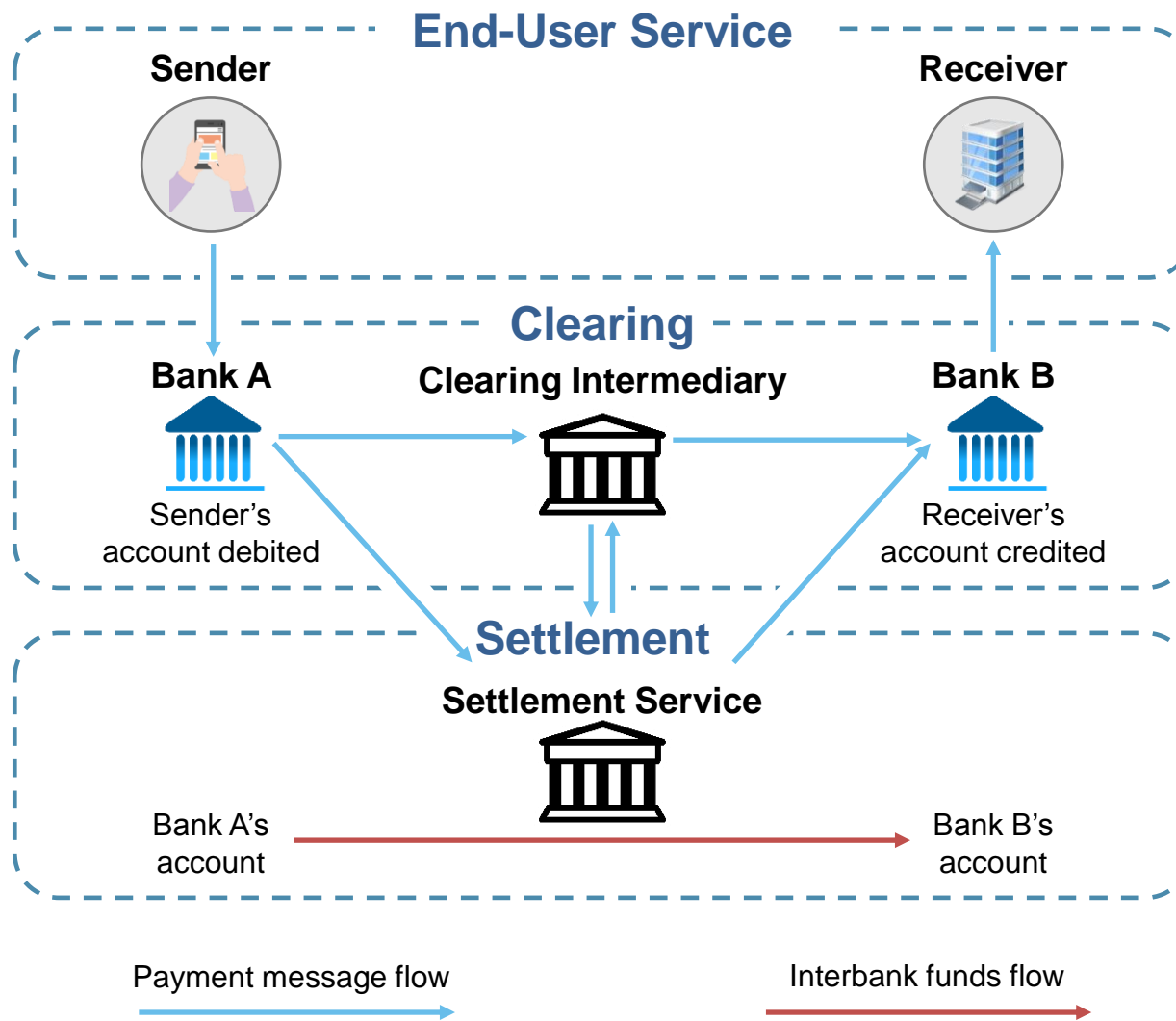


INTERBANK SETTLEMENT CONCEPTS AND REAL-TIME GROSS SETTLEMENT FOR FASTER PAYMENTS

STRATEGIES FOR IMPROVING THE U.S. PAYMENT SYSTEM

© 2018 Federal Reserve Banks. Materials are not to be used without consent.

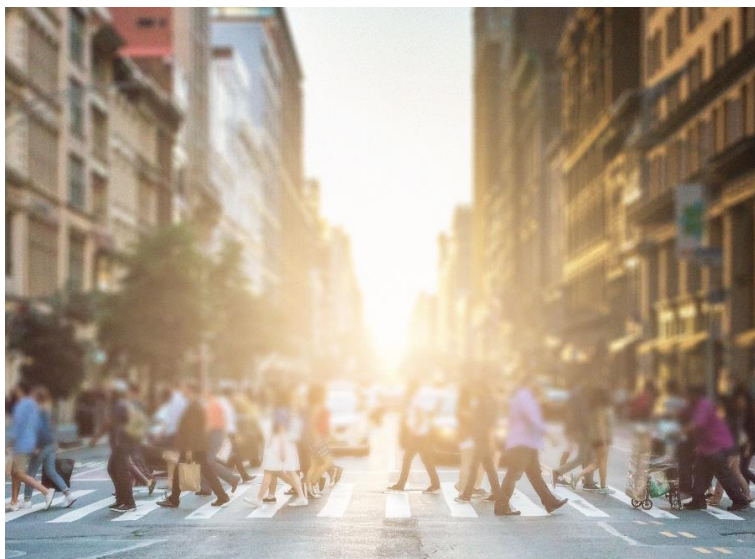
WHAT IS A SETTLEMENT SERVICE?



STRATEGIES FOR IMPROVING THE U.S. PAYMENT SYSTEM

REAL-TIME GROSS SETTLEMENT OF FASTER PAYMENTS

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:

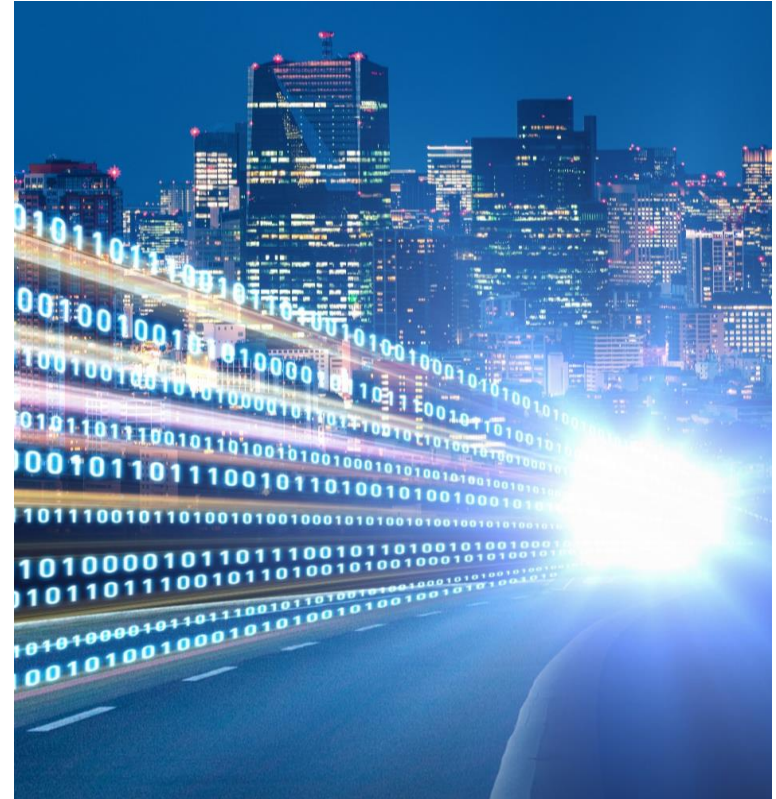
Is RTGS the appropriate strategic foundation for interbank settlement of faster payments in the United States?

POTENTIAL FEDERAL RESERVE 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

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

STRATEGIES FOR IMPROVING THE U.S. PAYMENT SYSTEM

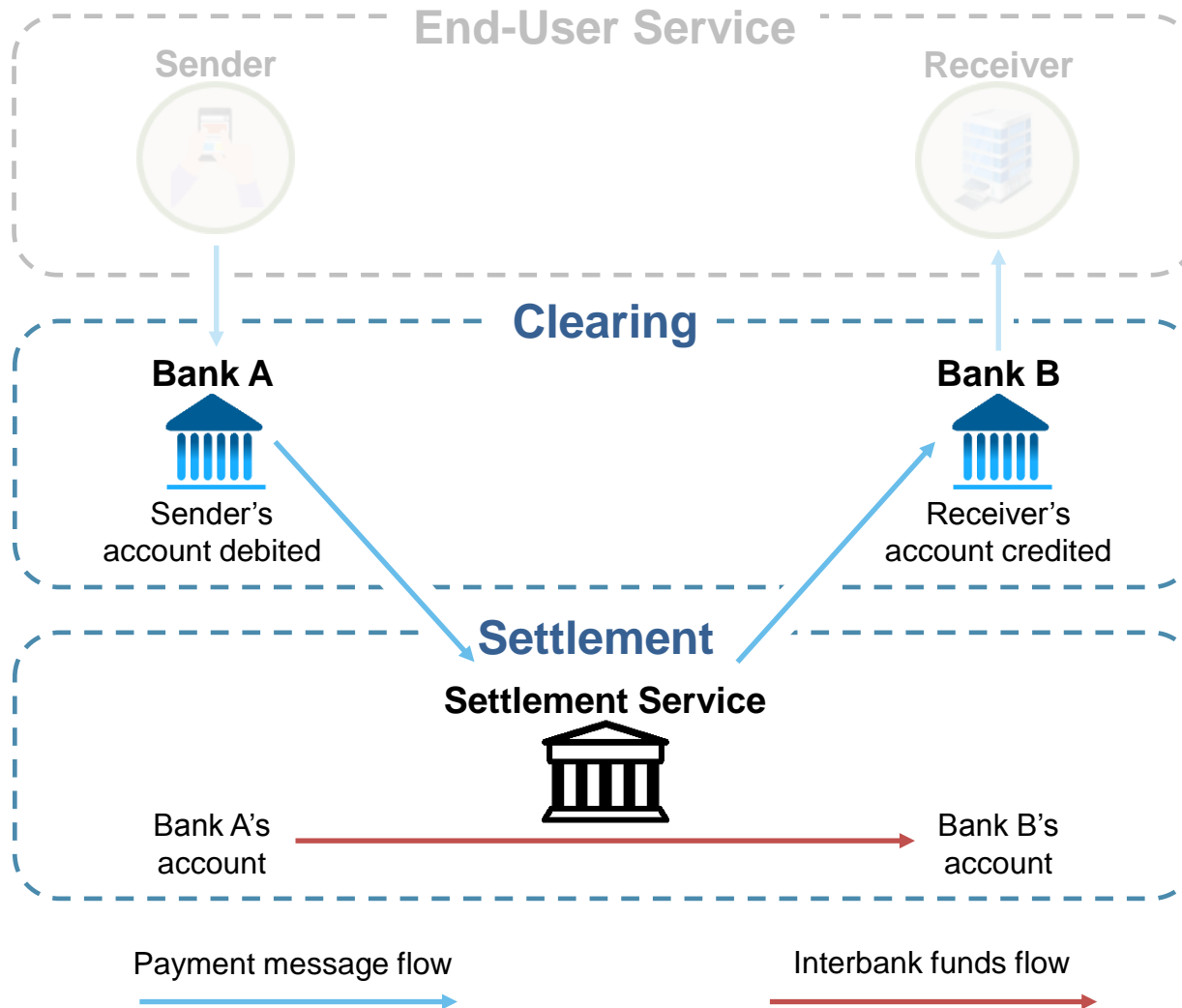
© 2018 Federal Reserve Banks. Materials are not to be used without consent.

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



STRATEGIES FOR IMPROVING THE U.S. PAYMENT SYSTEM



POTENTIAL LIQUIDITY MANAGEMENT TOOL

STRATEGIES FOR IMPROVING THE U.S. PAYMENT SYSTEM

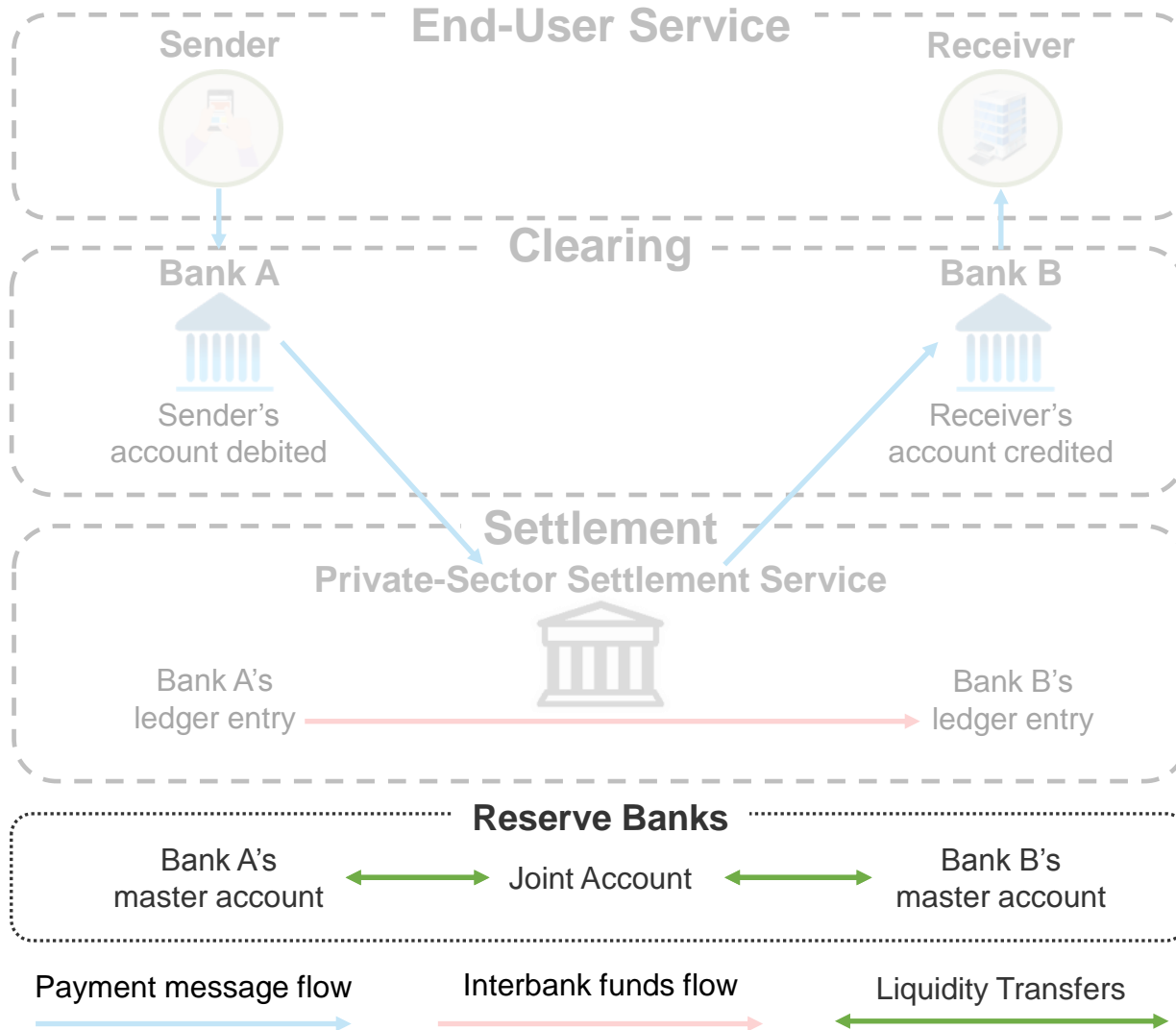
© 2018 Federal Reserve Banks. Materials are not to be used without consent.

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



POTENTIAL LIQUIDITY MANAGEMENT TOOL



STRATEGIES FOR IMPROVING THE U.S. PAYMENT SYSTEM



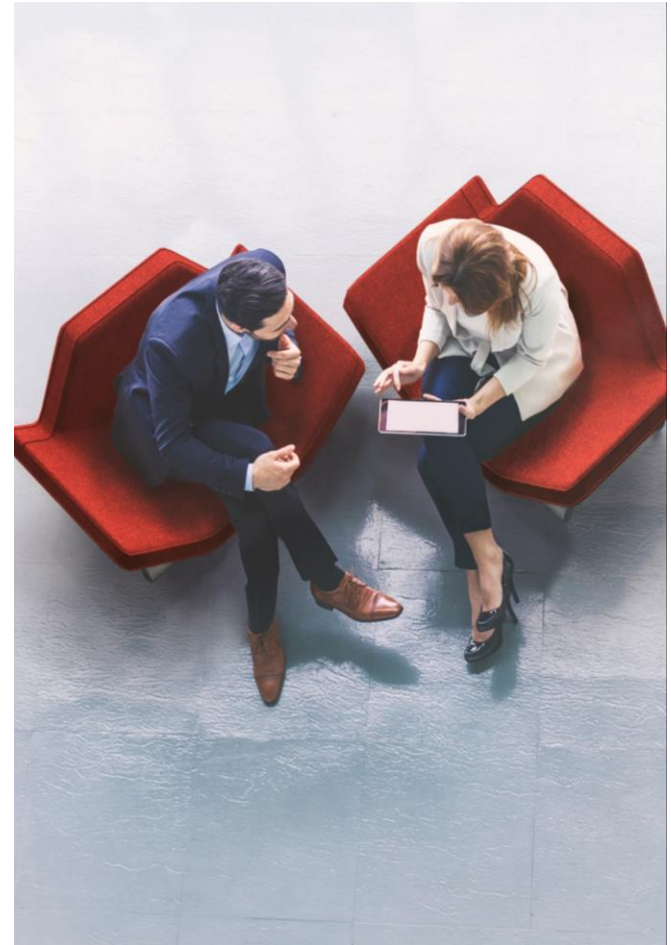
KEY QUESTIONS IN THE FEDERAL REGISTER NOTICE

STRATEGIES FOR IMPROVING THE U.S. PAYMENT SYSTEM

© 2018 Federal Reserve Banks. Materials are not to be used without consent.

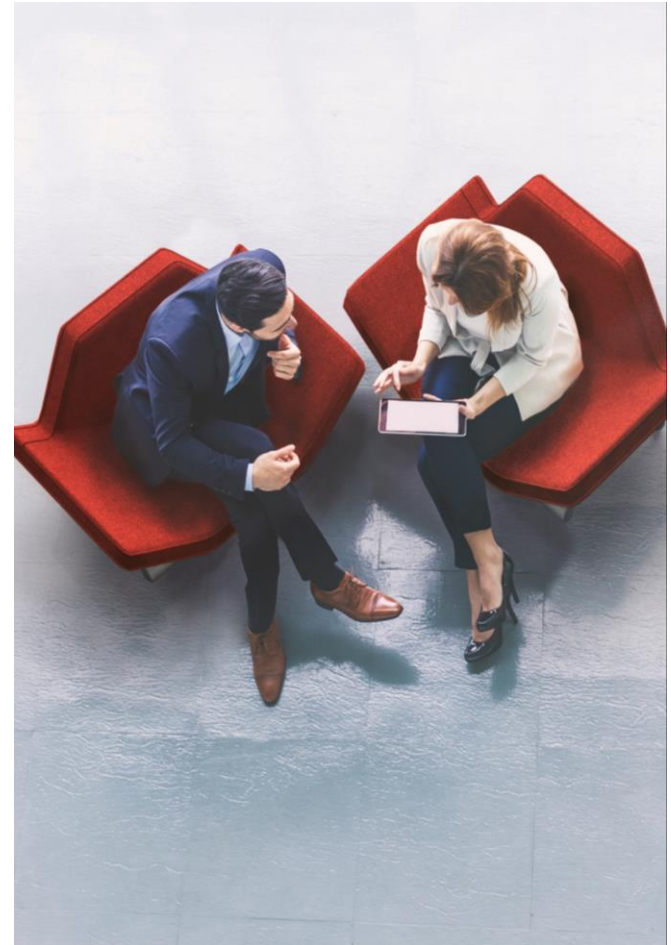
QUESTIONS ABOUT POTENTIAL 24x7x365 RTGS SETTLEMENT SERVICE

- 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.