Federal Reserve Seeks Public Comment on Faster Payment Service Proposals

**Overview:** On October 3, the Board of Governors of the Federal Reserve System (the “Board”) released a 47-page request for public comment (“Request”) on strategies for the Federal Reserve to support faster payments. Faster payment systems allow users to initiate and receive around-the-clock (“24x7x365”) payments in near real-time. The Request cites multiple benefits of such services, including the convenience of on-the-spot payments through phone apps, additional flexibility in managing money, and providing easier ways to avoid penalties like late fees.

According to the Board, faster payment systems are now broadly accessible in many countries around the world, but the U.S. financial system is lagging behind. To catch up, the Federal Reserve will need to develop an updated settlement infrastructure that can support innovative and modernized payment services; the Request invites the public to help the Board eventually fill this current gap.

**Background on Faster Payments**

For much of the past decade, the Federal Reserve has been working with the payments industry and other stakeholders on upgrading and modernizing the U.S. payment system. The endeavor aligns with efforts by NACHA to improve on Same Day ACH capabilities. In September, for instance, NACHA approved three new rules to expand Same Day ACH access to all financial institutions and their customers.

For its part, the Board launched an initiative called Strategies for Improving the U.S. Payment System in 2015 to help implement safe, ubiquitous, faster payment capabilities. Under this mandate, the initiative focused on publishing an initial consultation paper, engaging with stakeholders on strategies to improve the payment system’s safety and efficiency, and creating a Faster Payments Task Force (“FPTF”).

The FPTF convened between 2015 and 2017, and began by developing effectiveness criteria for evaluating possible faster payment services, which address features like ubiquity, efficiency, safety and security, and speed. The task force then drafted a two-part final report of consensus recommendations on faster payment systems. Among other things, the report asked the Federal Reserve to develop a 24x7x365 settlement service to support faster payments, and also to investigate the potential need for other Federal Reserve operational roles in faster payments.
Key Elements of the Request

The Request serves as the Board’s response to the FPTF’s call to action by proposing potential ways for the Federal Reserve to support faster payment systems. Still, while the Board promises to receive and analyze responsive comments, it explicitly refrains from making any commitment to take particular actions either now or in the future.

Specifically, the Request seeks feedback on two proposals for supporting faster payments: (1) developing a 24x7x365 real-time interbank settlement service; and/or (2) creating a liquidity management tool to enable 24x7x365 Federal Reserve account transfers.

1. Development of a 24x7x365 real-time interbank settlement service.

Under this proposal, the Reserve Banks would develop a service for real-time gross settlement of faster payments using banks’ Reserve Bank account balances. This service “would provide payment-by-payment interbank settlement in real time and at any time, on any day, including weekends and holidays.” The Request notes such a service would be similar to the Fedwire Funds Service that currently facilitates payment clearing and settlement for banks and their customers.

2. Creation of a liquidity management tool.

This proposal would involve the Reserve Banks developing a liquidity management tool to support 24x7x365 real-time interbank settlement services provided by the private sector or the Reserve Banks themselves. This tool would allow funds to move between Reserve Bank accounts at nonstandard business hours, such as weekends and holidays, to support 24x7x365 real-time settlement. The Request offers several ways the tool could work, including, for instance, through simultaneous liquidity transfers coordinated by an authorized agent or through bank-initiated transfers between specific sets of accounts functioning like the existing Fedwire Funds Service.

The Request provides an abundance of additional detail about how payment systems in work in the U.S., specific faster payment system models, and potential risks inherent in faster payments. For example, such services could impose added credit and liquidity risks on banks, particularly if rapid 24x7x365 withdrawals were made from bank accounts outside standard business hours. The two proposals are intended to minimize this and similar risks. Moreover, other countries that have already faced and dealt with similar risks can supply examples of successful mitigation measures.

Outlook: The Board seeks comments on the two proposals described above, as well as alternative approaches to achieving “ubiquitous, nationwide access to safe and efficient faster payments.” Comments responding to the Request must be submitted on or before December 14, 2018.

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