

Instant Payments - Frequently Asked Questions

1. What are instant payments?

Instant payments allow individuals and businesses to send and receive payments within seconds at any time of the day, on any day of the year, such that the receiver of a payment can use the funds almost instantly. This immediacy differentiates instant payments from traditional retail payment methods, including those that appear to occur within seconds from the sender's perspective but can take many days before funds become available to the receiver. There is broad consensus within the U.S. payment community and among other stakeholders that, just as real-time services have become standard for other everyday activities, instant payment services have the potential to become widely used, resulting in a significant and positive impact on individuals and businesses throughout the country and on the broader U.S. economy.

2. What is the difference between “faster” and “instant” payments?

Although the term “faster payments” broadly describes what the FedNow Service will deliver (e.g., payments that can be sent and received within seconds at any time of the day, on any day of the year, such that receiver can use the funds almost instantly), it can also apply to other improvements to payment speed (e.g., same-day ACH). In the 2020 Federal Register notice, the Federal Reserve Board (Board) transitioned to using the term “instant payments.” Specifically, the Board has used the term “instant payment” to refer to a payment in which an end user receives funds in near real time and at any time, with immediate interbank settlement of the payment also having occurred.

3. What benefits do instant payments offer?

Beyond speed and convenience, instant payments can yield real economic benefits for individuals and businesses by allowing them to make time-sensitive payments whenever needed and providing them with more flexibility to manage their money. This flexibility is especially important for individuals and households on tight budgets, for whom receiving a payment in real time could help avoid the need to use expensive check cashing services, engage in high-cost borrowing, or incur overdraft or late fees that may throw off their carefully managed finances. Similarly, immediate access to funds and the ability to instantly make bill payments benefit small businesses who may otherwise need to seek costly short-term financing. Widely available instant payments would be the foundation for the next generation of payment services, catalyzing innovations that generate new economic activity.

4. What is required to conduct a payment between depository institution accounts?
What is clearing? Settlement?

Payments typically require “clearing” and “settlement” between depository institutions. “Clearing” refers to the exchange of information about a payment and can involve additional activities such as fraud screening. “Settlement” refers to the debiting and crediting of accounts to transfer funds for a payment. Settlement services act as the foundation for most payment systems, as they provide a universal way for the sender’s depository institution to settle a payment by moving funds to the receiver’s depository institution. Payment services offered by the Federal Reserve, such as funds transfer, check, and automated clearinghouse (for example, direct deposit) services, have historically provided clearing and settlement between depository institutions.

5. What have central banks in other countries done to support instant payments?

Central banks in various countries have already implemented changes to their settlement services in support of instant payments, reflecting the foundational role that central banks play worldwide in the settlement of financial obligations between financial institutions. For example, the European Central Bank, Banco de México, and the Reserve Bank of Australia have looked to support the development of instant payments in their jurisdictions by providing services that enable payment-by-payment, real-time settlement of retail payments at any time, on any day. In fact, among the many countries that have either developed or are in the process of developing instant payment capabilities, the vast majority have done so with the direct operational involvement of their central banks. This progress means that the U.S. retail payment system lags behind systems in other countries.

Federal Reserve Actions to Support Instant Payments

6. In addition to the FedNow Service, what other actions has the Federal Reserve taken to support the development of instant payments in the United States?

Since 2013, there have been several collaborative initiatives between the Federal Reserve and industry stakeholders on strategies for improving the speed, safety, and efficiency of the nation’s payment system. In 2015, the Federal Reserve convened the Faster Payments Task Force (FPTF), a 320-member group comprised of a broad range of industry participants, to identify and assess alternative approaches for implementing safe and ubiquitous instant payment capabilities in the United States. In its final report, the FPTF identified the need for ongoing industry collaboration to address infrastructure gaps; to develop models for governance, rules and standards; and to

consider actions and investments that will contribute to a healthy and sustainable payments ecosystem.

Consistent with the FPTF's recommendations, the Federal Reserve facilitated the industry's faster payments Governance Framework Formation Team which, in late-2018, concluded its work and launched the U.S. Faster Payments Council, an industry-led membership organization that is intended to develop collaborative approaches to accelerate U.S. adoption of faster payments.

Further, the Federal Reserve supported the development of private-sector services for instant payments by enabling the use of joint accounts to facilitate settlement in instant payment services. Specifically, the Board approved in 2017 final guidelines for evaluating requests for joint accounts at the Reserve Banks intended to facilitate settlement between and among depository institutions participating in private-sector payment systems for instant payments. The impetus for allowing broader use of joint accounts was to facilitate private-sector developments in instant payments. As an example, the existing private-sector instant payment service settles payments in real time on its private ledger, supported by a joint account at a Federal Reserve Bank that is prefunded by participants in the service.

In addition, the Reserve Banks will offer a liquidity management tool alongside the FedNow Service. The tool will be available to FedNow Service participants as well as participants in private-sector services for instant payments that use joint accounts. Participants in such private sector services may choose to access the tool for the limited purpose of liquidity transfers without needing to be a full participant in the FedNow Service. (For more information on the liquidity management tool, please see FAQ 22).

7. What steps did the Federal Reserve take in determining whether and how to build the FedNow Service?

As part of the recommendations published in its final report in 2017, the Faster Payment Task Force requested that the Federal Reserve (i) develop a 24x7x365 settlement service to support instant payments and (ii) explore and assess the need for other Federal Reserve operational role(s) in faster payments. The U.S. Treasury subsequently [recommended](#) that “the Federal Reserve move quickly to facilitate a faster retail payments system, such as through the development of a real-time settlement service, that would also allow for more efficient and ubiquitous access to innovative payment capabilities.” In response to these requests and recommendations, the Board published in [2018 a request for comment](#) on two potential Federal Reserve

payment and settlement services to support the development of instant payments in the United States. The vast majority of comments received supported the Federal Reserve building a real-time gross settlement (RTGS) service for faster payments.

As a result of this extensive consultation with a wide variety of stakeholders, the Board announced via [public notice in August 2019](#), that the Reserve Banks would develop the FedNow Service, a new interbank 24x7x365 RTGS service with integrated clearing functionality to support instant payments in the United States. In that notice, the Board requested comment on the features and functionality of the service; and on August 6, 2020, the Board published a final notice detailing the features and functionality of the FedNow Service at launch as well as potential features for future releases.

8. Will the development of the FedNow Service go beyond the roles that the Federal Reserve has traditionally played in the payment system?

Operating the FedNow Service alongside private-sector real-time gross settlement services for instant payments aligns with most payment systems in the United States. Since its inception, as intended by Congress, the Federal Reserve has played a key operational role in the nation's payment system by providing payment and settlement services between depository institutions. As the nation's central bank, the Federal Reserve has a unique ability to provide settlement between depository institutions without introducing credit and liquidity risks. This operational role also allows the Federal Reserve to promote the accessibility, safety, and efficiency of the U.S. payment system. The payment and settlement services offered by the Reserve Banks, such as services for funds transfers, checks, and automated clearinghouse payments, have traditionally operated alongside and in support of similar private-sector services.

9. Why doesn't the Federal Reserve use its supervisory or regulatory authority to influence the development of instant payments in the United States?

The Federal Reserve Board (Board) does not have plenary regulatory or supervisory authority over the U.S. payment system. Rather, the Board has limited authority to influence private sector payment systems in specific circumstances. Instead, the Federal Reserve has historically exercised significant influence in the U.S. payment system through the Reserve Banks' provision of payment and settlement services to depository institutions. This operational role has helped to promote payment systems in the United States that are ubiquitous, safe, and efficient.

10. How does the Federal Reserve make decisions about developing new payment services, such as the FedNow Service, or enhancing its existing services?

The Federal Reserve Board has established a set of criteria for evaluating new or enhanced Federal Reserve payment services in its policy The Federal Reserve in the Payment System. As the Federal Reserve considers the introduction of new services or major service enhancements, the policy requires all of the following criteria to be met:

- The service should be one that other providers alone cannot be expected to provide with reasonable effectiveness, scope, and equity. For example, it may be necessary for the Federal Reserve to provide a payment service to ensure that an adequate level of service is provided nationwide or to avoid undue delay in the development and implementation of the service.
- The Federal Reserve must expect that it's providing the service will yield a clear public benefit, including, for example, promoting the integrity of the payments system, improving the effectiveness of financial markets, reducing the risk associated with payments and securities-transfer services, or improving the efficiency of the payments system.
- The Federal Reserve must expect to achieve full recovery of costs over the longrun.

Key Policy Considerations of the FedNow Service

11. Why does the Federal Reserve believe it is important to develop the FedNow Service?

In assessing its criteria for new payment services, the Federal Reserve Board (Board) considers input from the public, historical experience, and its own analysis to assess whether such services can be expected to generate public benefits that private-sector services alone may be unable to achieve. Based on its assessment, the Board concluded that private-sector real-time gross settlement services for instant payments alone were unlikely to provide an infrastructure for instant payments with reasonable effectiveness, scope, and equity. In particular, private-sector services are likely to face significant challenges in extending equitable access to the more than 10,000 diverse depository institutions across the country. By contrast, the Federal Reserve is well positioned to overcome the challenge of extending nationwide access to an infrastructure for instant payments, thanks in large part to its existing nationwide payment infrastructure and established customer service relationships with more than 10,000 depository institutions (or their agents). Moreover, the development of the FedNow Service will likely yield clear and substantial benefits to the safety and efficiency of instant payments in the United States, as suggested by the majority of comments in response to the Board's [2018 request for comment](#).

12. How will the FedNow Service make instant payments safer in the United States?

A safe payment system is crucial to economic growth and financial stability because the effective operation of markets for virtually every good and service is dependent on the smooth functioning of the nation's banking and payment systems. The FedNow Service will promote the safety of the U.S. payment system in multiple ways. As the prominence of instant payments in the United States grows, the development of the FedNow Service will allow the Federal Reserve to retain its ability to provide stability and support to the banking system and the broader economy in times of crisis. In addition, as the operator of the service, the Federal Reserve will be in a position to promote the development and implementation of industrywide standards for disputing fraudulent instant payment transfers. The development of the FedNow Service can also enhance the safety of the U.S. payment system by promoting resiliency through redundancy, allowing depository institutions that join multiple services to establish backup connections in case one of those services has an operational outage or other problem.

13. How will the FedNow Service lead to a more efficient payment system?

An efficient payment system facilitates and encourages economic activity by making it faster, cheaper, and more convenient for individuals and businesses to pay for goods and services. The FedNow Service will facilitate an efficient payment system by creating a foundation on which depository institutions across the country and the broader payment industry can build modern, innovative, and safe instant payment services. By facilitating nationwide reach for instant payments, the FedNow Service will likely make the development of new instant payment services more attractive, improving efficiency by increasing innovation and competition in the market for end-user instant payment services. In addition, the presence of multiple real-time gross settlement (RTGS) services for instant payments—the FedNow Service and private-sector RTGS services—can yield additional efficiency benefits by leading to lower prices and higher service quality, which would benefit the U.S. payment system and its users.

14. How will the FedNow Service help smaller depository institutions?

Providing payment services that are accessible to virtually all U.S. depository institutions benefits all payment system participants because it allows individuals and businesses to make payments to any other party for a wide range of purposes. The Federal Reserve is uniquely positioned to help develop a safe and efficient nationwide settlement service for instant payments through its existing payment infrastructure and established customer service relationships with more than 10,000 depository

institutions (or their agents). Since its inception, driven by its long-standing policy commitment to promote nationwide access, the Federal Reserve has extended access to depository institutions of all sizes on fair and equitable terms, including smaller depository institutions in rural and remote areas of the country. The FedNow Service will facilitate access to a real-time gross settlement infrastructure for instant payments for these depository institutions and, most importantly, the communities they serve.

15. Will the Federal Reserve be able to recover costs of the FedNow Service over time?

In keeping with the requirements of the Monetary Control Act (MCA) and longstanding principles for the pricing of Federal Reserve services, the Federal Reserve Board (Board) would fully expect any new service to achieve full recovery of costs over the long run. In reaching this conclusion, the Board considered the MCA's cost recovery requirement alongside its requirement that the Federal Reserve "give due regard to competitive factors and the provision of an adequate level of such services nationwide." For any new service, the Board would follow a similar approach to long-run cost recovery as that applied to the Federal Reserve's FedACH® service, the last new retail payment service developed by the Federal Reserve.

16. How will the FedNow Service support the development of instant payment services in the United States?

The Federal Reserve's new FedNow Service, alongside services provided by the private sector, will help establish a safe and efficient nationwide infrastructure supporting instant payment services in the United States. This infrastructure will assist depository institutions across the country and the broader payment industry in their efforts to build modern, innovative, and safe instant payment services that are broadly available to individuals and businesses and that ultimately serve the American public.

The FedNow Service will be available to depository institutions in the United States and will enable individuals and businesses to send instant payments through their depository institution accounts. The service is intended to be a flexible, neutral platform that supports a broad variety of instant payments. At the most fundamental level, the service will provide interbank clearing and settlement that enables funds to be transferred from the account of a sender to the account of a receiver in near real-time and at any time, any day of the year. Depository institutions and their service providers will be able to build on this fundamental capability to offer value-added services to their customers.

Features and Functionality of the FedNow Service

17. How will the FedNow Service work?

The FedNow Service will process and settle individual payments within seconds, 24 hours a day, 7 days a week, 365 days a year. Like other payment and settlement services offered by the Federal Reserve, the service will settle obligations between depository institutions through debit and credit entries to balances in their master accounts at the Reserve Banks. Consistent with the goal of supporting instant payments, use of the FedNow Service will include, as a term of service, a requirement that participants make the funds associated with individual payments available to their end-user customers immediately after receiving notification of settlement from the service. A detailed description of the payment flow of a FedNow Service transaction can be found [here](#).

18. What features and functionality will be included in the FedNow Service?

The FedNow Service will be released in phases and additional features and service enhancements will be introduced over time. At launch, the FedNow Service will be designed to maintain uninterrupted 24x7x365 processing of credit transfers with security features to support payment integrity and data security. The service will have a 24-hour business day each day of the week, including weekends and holidays. End-of-day balances will be reported on Federal Reserve accounting records for each participating depository institution on each FedNow Service business day. Access to intraday credit will be provided to participants in the FedNow Service during its business day under the same terms and conditions as for other Federal Reserve services.

The first release of the FedNow Service will also include optional features: fraud prevention tools, the ability to join initially as a receive-only participant, request for payment capability, and tools to support participants in their handling of payment inquiries. The FedNow Service will also provide a liquidity management tool to support instant payment services (see FAQ 22).

19. When will the FedNow Service become available?

The Federal Reserve intends to launch the FedNow Service as soon as practicably possible, with a target release date of 2023. The Federal Reserve intends to announce a more specific time frame for launch once additional work is completed. The build of the FedNow Service is ongoing and includes development of the necessary

infrastructure, integration with existing Federal Reserve systems, and continued engagement with industry stakeholders on features and design.

20. Who will be eligible to participate in the FedNow Service? How will merchants, consumers, or non-bank payment service providers access the service?

As with current Federal Reserve Bank services, the FedNow Service will be available to depository institutions eligible to hold accounts at the Reserve Banks under applicable federal statutes and Federal Reserve rules, policies, and procedures. Participants will be able to designate a service provider or agent to submit or receive payment instructions on their behalf. Participants will also be able to settle payments in the account of a correspondent, if they choose to do so. Merchants, consumers, or non-bank payment service providers can access the service through depository institutions as they do today with other payment systems.

21. Will cross-border transactions also be available in the FedNow Service?

At launch, the FedNow Service will support only domestic payments between U.S. depository institutions.

22. How will the FedNow Service support liquidity management needs in a 24x7x365 environment?

Feedback in response to the [2019 Federal Register Notice](#) indicated a need for the Federal Reserve to provide support for FedNow Service participants in managing their liquidity needs in a 24x7x365 environment. Given that the FedNow Service will inherently be able to support funds transfers around the clock at launch, the Board determined that providing a liquidity management tool as a core feature of the service is the most effective way to address the industry's needs for liquidity management related to instant payments. The tool will be available to FedNow Service participants and their traditional liquidity providers, as well as participants in private-sector services for instant payments that use a joint account at a Reserve Bank. Participants in such private-sector services may choose to access the tool for the limited purpose of liquidity transfers without needing to be a full participant in the FedNow Service.

23. Is the Federal Reserve still exploring expansion of the Fedwire® Funds Service and National Settlement Service (NSS) hours to support liquidity management for instant payments?

The Federal Reserve continues to explore expanded hours for the Fedwire Funds Service and NSS. Expanded hours for these services could bring broad benefits to stakeholders beyond liquidity management for instant payments. (See also FAQ 22.) In

light of the systemic importance of the Fedwire Funds Service and the Federal Reserve Board's risk management expectations for the service, analysis is ongoing to evaluate more fully the relevant operational, risk, and policy considerations for both the Reserve Banks and service participants. The Federal Reserve Board will announce any decision regarding the expansion of hours for the Fedwire Funds Service and NSS, including issuing a request for comment if necessary, when that analysis is completed.

24. What is interoperability?

The Federal Reserve defines interoperability broadly to mean that payment messages are routed or exchanged and settled such that a sender may initiate a payment, and it will seamlessly reach the receiver. With interoperability, an individual or business with a bank account would be able to send a payment to another individual or business, without having to choose, understand, or even be aware of the path taken by the payment.

In a payment system with multiple operators, interoperability could take different forms.

As noted in a [paper](#) by the U.S. Faster Payments Council, one model of interoperability is payment routing, which is used in card payments and wire transfers. This model relies on the sending depository institution routing payments through a specific service based on the path(s) available to reach the receiver; if there is more than one path, the sending depository institution may choose the service it uses based on specific criteria, such as price and features.

Another model is message exchange across services, which is designed for bilateral exchange between two service operators. In this model, depository institutions can connect to either service operator, and those operators conducting message exchange with each other and providing settlement arrangements, among other things. Automated clearinghouse (ACH) payments use this model.

25. Will the FedNow Service be interoperable with other private-sector services for instant payments to facilitate nationwide reach?

The Federal Reserve Board views nationwide reach as a key objective for real-time gross settlement infrastructure for instant payments.

Through engagement with the industry, the Federal Reserve has explored interoperability and other paths to achieving the ultimate goal of nationwide reach for instant payments. The Federal Reserve, however, cannot accomplish interoperability for instant payments alone. The industry—depository institutions and their service providers as well as service operators— must work towards this common goal, as it has

in the past with other payment services. The model and timeline for achieving interoperability will depend on the level of commitment and engagement across the industry. The Federal Reserve is committed to using the widely accepted ISO 20022 standard and other industry best practices to remove unnecessary and burdensome incompatibilities that could be a barrier to payment routing, a model of interoperability.

The Federal Reserve is open to the model of interoperability based on message exchange across services in the future, after introduction of the FedNow Service. However, the message exchange model poses several additional complexities (such as technical message exchange and common settlement) and would require the full commitment and active engagement of the existing private-sector service.

26. How do I get involved to help inform the evolution of the FedNow Service?

The Federal Reserve will continue to engage with industry stakeholders throughout the development process for the FedNow Service in order to understand, on an ongoing basis, the needs of depository institutions, other industry stakeholders, and the public. The Reserve Banks have established the new [FedNow Community](#), which represents a variety of expertise, viewpoints, and industry segments and members, that will help inform the service design and provide insights on readiness for instant payments. The Reserve Banks will form working groups on a range of topics and will provide information on these groups through the FedNow Community and [FRBservices.org](#).

27. When and how will the Federal Reserve provide more information about the FedNow Service, such as technical specifications and pricing?

As the development of the FedNow Service progresses, the Federal Reserve is committed to providing additional details in advance that will allow industry partners to take appropriate steps to ensure they are prepared to use the FedNow Service when it becomes available. Future communications about the FedNow Service, including but not limited to technical specifications, detailed product offerings, pricing, and implementation timing, will be provided through established channels, such as [FRBservices.org](#).

For more information on Faster Payments, FedNow, or partnering with VolCorp as a funding agent on the RTP® Network, please contact us at fasterpayments@volcorp.org.