THE FEDERAL RESERVE
Financial Services

FedNow℠ Service



A NEW INFRASTRUCTURE TO SUPPORT 24x7x365 INSTANT PAYMENTS

The Federal Reserve is developing the FedNow Service to be a safe and efficient instant payment infrastructure that will operate around the clock, 365 days a year. It will enable financial institutions of all sizes to offer customers the ability to send and receive money immediately, providing receivers immediate access to funds. Through the service, funds will settle between participating financial institutions instantly, which means no buildup of interbank obligations or short-term credit risk.

The FedNow Service will provide a springboard for financial institutions (FIs) to offer innovative instant payment solutions and help them meet the growing demand for these services.

MODERNIZING THE U.S. PAYMENT INFRASTRUCTURE

The FedNow Service will modernize the U.S. payment infrastructure and provide a range of use cases and benefits to financial institutions, individuals and businesses.



Financial institutions: Remain competitive, create new products and meet the needs of customers



Individuals: Instantly send and receive money with confidence and reduce the risk of overdraft and late fees



Businesses: Gain better control of cash flow management, improve efficiency of corporate payments and streamline reconciliation processes

INITIAL LAUNCH

The FedNow Service will debut in 2023, with additional functionality to come in future phases. The initial launch will focus on core capabilities and certain value-added features that will meet market needs and help FIs transition to a 24x7x365 instant payment service.

The FedNow Service will use widely accepted ISO® 20022 message standards and best practices to promote nationwide reach for instant payments and support routing interoperability with other instant payment services. At initial launch, the service will support the account-to-account and consumer-to-business bill pay use cases; however, the service is use-case agnostic and will be able to support a wide variety of use cases with innovation by the industry. Future releases of the service may offer additional features/functionality to enable FIs to offer additional use cases to their customers.

KEY FEATURES AND FUNCTIONALITY AVAILABLE AT LAUNCH

FEATURE	DESCRIPTION	BENEFIT
Settlement flexibility for correspondent relationships	Participants may settle payments through the FedNow Service in the master account of a correspondent FI. Correspondents will be able to receive real-time notifications when debits or credits are settled in their account as well as reporting for their respondent's activity	Facilitates access to the FedNow Service for eligible FIs that wish to settle using a correspondent or may not have a master account
Settlement in FI's master account	Settlement occurs in the participant's master account and does not require any prefunding. Notifications (e.g., advices and acknowledgments) are provided to the participants in real time	Provides assurance that all payments are complete as well as final and irrevocable
Liquidity management transfers	Transfers in support of instant payment liquidity needs can be enabled between the Reserve Bank master accounts of two FedNow participants or between a participant's master account and a joint account that backs a private-sector instant payment service. Traditional liquidity providers that support participants in the Service and the private-sector service will also be able to use these transfers. Limits for liquidity transfers will exceed the customer credit transfer limit in order for participants to maintain adequate funds in their accounts at all times	Enables efficient liquidity management in a 24x7x365 operating environment
Transaction-level reporting	Participants and their correspondents can receive reporting for transaction monitoring, account balance inquiries and reconciliation as well as additional activities. These will include account activity totals, account balance and account activity details reports	Facilitates participants' management and monitoring of their FedNow Service activity
Fraud mitigation tools	Optional fraud tools will include negative lists and the ability to set lower credit transfer limits	Aids participants in cobatting fraudulent activity
Maximum transaction value limit	The planned credit transfer transaction value limit will be $500,000. Participants will have a default limit of $100,000, with the option to adjust it up or down	Supports a variety of payment needs while limiting the size of potentially fraudulent transactions
Request for payment (RFP)	FIs, businesses and individuals will be able to request a payment from a recipient	Facilitates a variety of transactions and supports widespread use of instant payments, such as for bill payment
Support for exception processes	The service will facilitate end-to-end nonvalue ISO 20022 messages (such as request for return, request for information and request for status) to support exception and return process management	Communicates the status of any exceptions or returns that occur throughout a transaction flow
Access through FedLine® Solutions	Participants will access the FedNow Service through FedLine Solutions, which will be enhanced to support the service's 24x7x365 processing	Leverages an existing secure network and streamlines onboarding processes
FedNow interface on FedLine Solutions	Through the user interface, participants will be able to configure user profiles, broadcast participant availability and view balance information on a 24x7x365 basis	Provides an enhanced experience for participants to support instant payments in real time.



PARTICIPATION TYPES

The FedNow Service will offer the flexibility to choose almost any combination of participation types within the solution to meet business requirements.

Send and receive customer transfers: FIs (or providers on their behalf) can send and receive credit transfers, send requests for payment (RFP) and, optionally, receive RFPs. , as well as return customer payment messages.

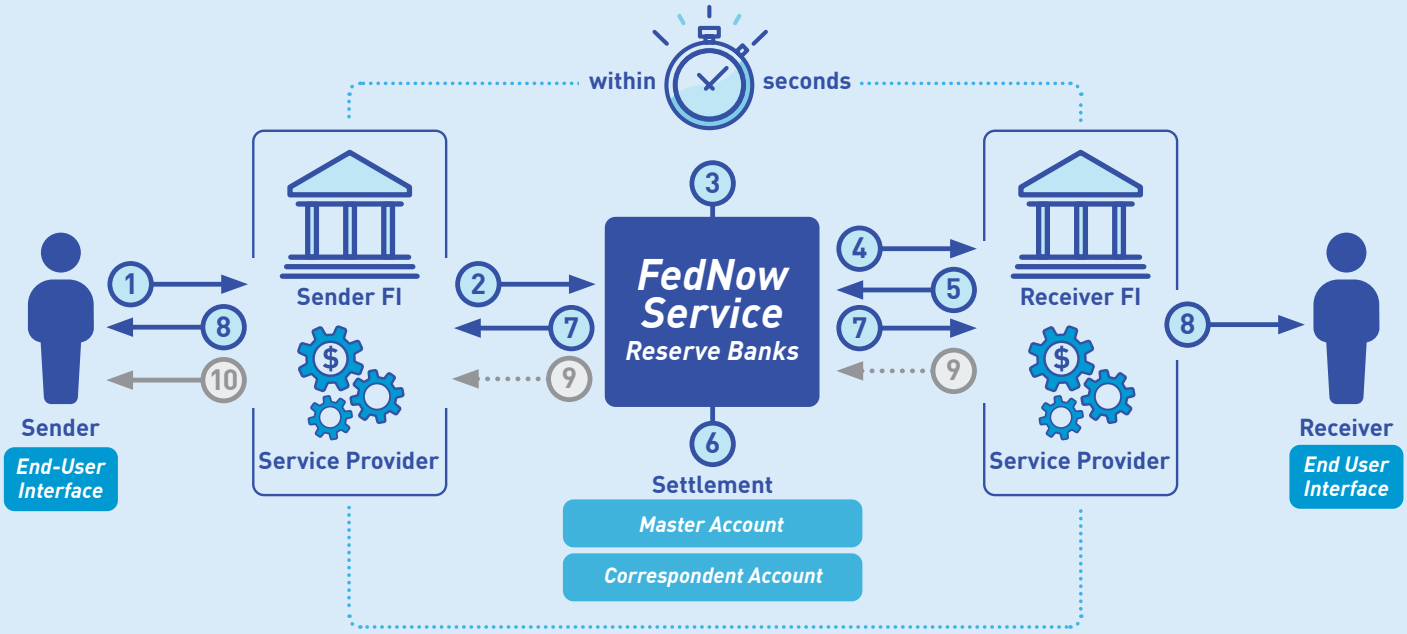
Receive customer credit transfers: FIs (or providers on their behalf) can choose to receive customer credit transfers and send RFPs, as well as initiate payment returns upon request from a sender but cannot send customer transfers.

FI TRANSFERS

The FedNow Service will support FIs acting as a correspondent for settlement and/or FIs facilitating liquidity transfers.

Settlement services: Designed for correspondent institutions who settle transactions on behalf of their respondents, but do not wish to send or receive transactions via the FedNow Service. Special reports and notifications support near-real-time monitoring of respondent activity by RTN.

Liquidity management transfers: FIs (or providers on their behalf) can send credit transfers in support of instant payment liquidity needs. These transfers may occur between the master accounts of two FedNow participants or between a participant's master account and a joint account backing a private-sector instant payment service.



STANDARD PAYMENT FLOW

The FedNow Service will support credit transactions.* These payment flow steps are intended to take place within seconds:

1. A sender (i.e., an individual or business) initiates a payment by sending a payment message to its FI through an end-user interface outside the FedNow Service. The sender's FI is responsible for screening the payment according to its internal processes and requirements.
2. The sender's FI, or its service provider, submits a payment message to the FedNow Service.
3. The FedNow Service validates the payment message, for example, by verifying that it meets message format specifications.
4. The FedNow Service sends the contents of the payment message to the receiver's FI to seek confirmation that it intends to accept the payment message. At this point, the receiver's FI will have the opportunity to confirm, among other things, that it maintains the specified account.
5. The receiver's FI sends a positive response to the FedNow Service, confirming that it intends to accept the payment message. **NOTE:** Steps 4 and 5 are intended to reduce the number of misdirected payments and resulting exception cases that can occur in high-volume systems.
6. The FedNow Service debits and credits the designated master accounts of the sender's and receiver's FI (or those of their correspondents), respectively.
7. The FedNow Service sends a payment message forward to the receiver's FI with an advice of credit and sends an acknowledgement to the sender's FI that settlement is complete.
8. Outside of the FedNow Service, the receiver's FI credits the receiver's account.*The receiver's FI makes funds available to the receiver immediately after step 7. This crediting to the receiver's account as well as the debiting of the sender's account by their respective financial institutions happens outside the FedNow Service.*

**The FedNow Service processes payments around the clock, every day of the year. However, for accounting and reporting purposes, the FedNow cycle date will differ from the calendar date for a period of time (from close until midnight) because it will align with the Fedwire® Funds Service business day, which generally has a closing time of 7:00:59 p.m. ET. If the Fedwire Funds Service business day is extended, the FedNow cycle date will extend along with it. For consistency, the FedNow Service will align to the same timeframe for weekends and holidays.*

Get ready for the FedNow Service

To stay informed and take steps now to prepare for the launch of the FedNow Service, visit FedNowExplorer.org, where you can find more details.

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