

Senate Banking Committee Considers Testimony on FRB Upgrade of U.S. Payment System

September 27, 2019

The Senate Committee on Banking, Housing and Urban Affairs considered testimony on a 24x7x365 real-time gross settlement system ("FedNow").

As previously covered, the Board of Governors of the Federal Reserve System ("FRB") intends to upgrade the U.S. payment system to provide payment-by-payment interbank settlements in real time (*i.e.*, real-time gross settlements or RTGS).

Highlighted Testimony

Federal Reserve Bank of Kansas City President Esther L. George highlighted three reasons for supporting the "modernization of our nation's payment system." According to Ms. George, the upgraded system (i) would be a service that other providers could not be expected to offer with "reasonable effectiveness, scope and equity," (ii) would provide a clear public benefit by promoting the integrity of the payments system and decreasing payments systems risk, and (iii) have an "overwhelming majority" in support of the FRB's role in facilitating a faster payments provider.

Clearing House Payments Company Executive Managing Director and Deputy General Counsel Robert Hunter cautioned the FRB that FedNow could create "significant" competitive issues for the private sector, possibly resulting in consumers and businesses not being able to benefit fully from real-time payments. To address this issue, Mr. Hunter recommended that the FRB (i) use its legal authority to apply the same treatment to financial institutions that are in a Real-Time Payment ("RTP") account held at the FRB of New York and are used to facilitate RTP settlements, and (ii) move forward in making Fedwire and National Settlement Services available on a "24x7" basis.

CATO Institute Senior Fellow and Director George Selgin warned that the FRB plan may do harm to the "equitable, efficient, and safe U.S. fast payments system" by competing directly with private-sector retail payment services. To address this concern and others more fully explained in his testimony, Mr. Selgin suggested that: (i) Congress give the FRB a two-year period during which they would need to make Fedwire and National Settlement Service a "24x7x365" service or, alternatively, establish the Liquidity Management Tool as a 24x7x365 service; (ii) the FRB, in order to avoid having volume-based pricing undermine the goal of equitable real-time payments, publicly commit to refraining from offering volume-based discounts on FedNow; (iii) Congress "compel" the FRB to classify all balances held in joint FRB bank accounts as reserves if the accounts are set up to facilitate settlements on private payment networks; and (iv) the FRB close Monetary Control Act loopholes.

Bridge Community Bank President and CEO Robert Steen stated that FedNow (i) will encourage U.S. competitiveness in payments, and (ii) is a "natural extension" of the FRB's long history of ensuring access and secure payments to financial institutions.

FDIC Former Chair Sheila C. Bair argued that FedNow would foster resiliency in the FRB's financial system by (i) promoting competition and (ii) protecting against anti-competitive behavior by dominant private actors or futures.