



Managing Liquidity in an Instant Payments World

Because the FedNowSM Service will process and settle payments individually and continuously on a 24x7x365 basis, participating financial institutions (FIs) will need adequate funds or available credit (liquidity) in their accounts at all times.

The FedNow Service will enable FIs to transfer funds to each other to support instant payment liquidity needs. The Federal Reserve Banks anticipate implementing specific controls for liquidity transfers.

This document covers key information about liquidity management transfers including:

- Liquidity expectations
- How liquidity management transfers will work
- Controls for liquidity management transfers
- Configuring liquidity management transfer capabilities
- Other considerations for managing liquidity

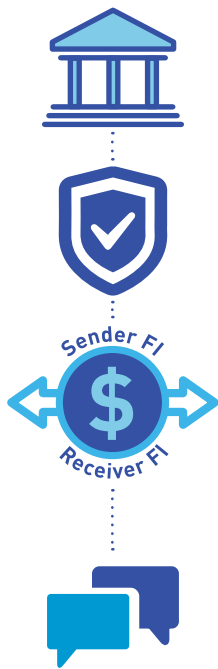
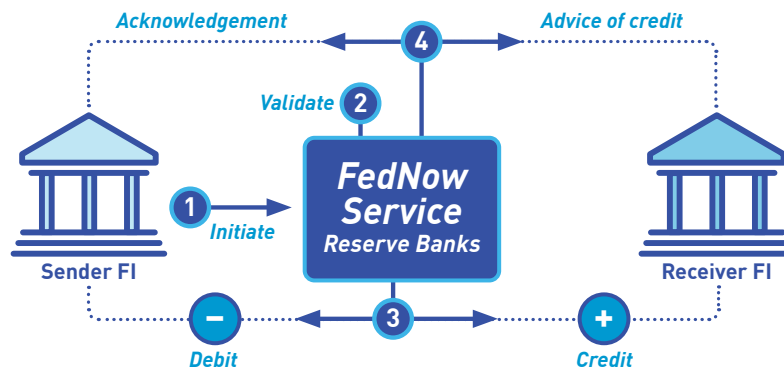
Liquidity Expectations

There are a few key points to keep in mind when thinking about liquidity management and the FedNow Service:

- FedNow participants or their correspondents will be expected to maintain balances in their master accounts to settle FedNow transactions, consistent with the Federal Reserve's Policy on Payment System Risk.
- Participants should not expect the FedNow Service, at initial launch, to reject payments based on a participant's insufficient balance or overdraft capacity, even if the Federal Reserve Banks do so for other services. However, standard intra-day and overnight overdraft fees will apply.
- The Federal Reserve Banks do not intend to open the Discount Window outside of standard hours. During its business day, the Federal Reserve Banks will provide intra-day credit to FedNow participants under the same terms and conditions as its other services.

How FedNow Liquidity Management Transfers Will Work

The following is a step-by-step look at how FIs will transfer liquidity to one another using FedNow liquidity management transfers (LMT).



Step 1: The Sender FI initiates a liquidity transfer through a FedLine® Solutions channel and sends a payment message (ISO® message pacs.009) to the FedNow Service.

Step 2: The FedNow Service validates the payment message — for example, by verifying the message meets format specifications.

Step 3: The FedNow Service debits and credits the designated master accounts of the Sender and Receiver FIs. **Note:** The FedNow Service will not seek confirmation from the Receiver FI — as it will with customer credit transfers — before settling the liquidity management transfers and delivering an advice of credit to the Receiver FI. For FIs using a correspondent for settlement, the debit or credit will settle in the correspondent’s master account.

Step 4: The FedNow Service sends an advice of credit to the Receiver FI and sends an acknowledgement to notify the Sender FI that the settlement is complete.



Liquidity management transfers will be subject to the same 20-second (or less) payment timeout clock as standard customer transfers received by the FedNow Service. For more information on how the payment timeout process works, refer to the [Understanding the Payment Timeout Clock](#) topic.

FedNow Service Controls on Liquidity Management Transfers

The Federal Reserve anticipates implementing specific controls for liquidity management transfers (pacs.009), including transaction value limits, daily volume limits (enforced by the terms of service) and limits on available hours of operation.

FedNow participants will be able to route liquidity transfers using master account/primary routing transit numbers (RTNs), subaccount RTNs or other secondary RTNs, as long as they are enabled in the FedNow Service.

FedNow participants will be able to disable sending or receiving liquidity transfers within the customer profile. The FedNow Service will reject liquidity transfers that include either a Sender FI or Receiver FI who is disabled for the service.

Configuring FedNow Liquidity Management Transfer Capabilities

FedNow participants that are set up to send or receive customer payments (ISO messages pacs.008 and pacs.004) will automatically be enabled to send and receive liquidity management transfers (pacs.009). If they wish, participants will be able to opt out of either sending or receiving liquidity management transfers.

FIs will also be able to choose to participate in the FedNow Service for the sole purpose of supporting FedNow liquidity management transfers. For example, FIs will be able to separately enable and transfer funds to support certain payment system interbank liquidity needs as a stand-alone service without enabling other capabilities within the FedNow Service.

Please refer to the **Participation Types** topic to learn more about these participant configuration options.



Supporting Correspondents/Respondents

A FedNow participant that uses a correspondent to settle FedNow activity, will be allowed to receive liquidity transfers. In this case, liquidity management transfer messages (pacs.009) will be posted to the designated correspondent's master account.



Supporting Participants in Other Instant Payment Services Backed by a Joint Account

FIs who participate in a private-sector instant payment service backed by a joint account maintained by the Federal Reserve Banks will be able to use the FedNow Service for sending and receiving transfers to and from a master account and the joint account.

The joint account agent will need to enable the liquidity management transfers feature of the FedNow Service in order to send, receive and settle liquidity management transfer messages sent through the FedNow Service.

FIs in the private-sector service will need to enable their master accounts to send and receive FedNow liquidity management transfers in the FedNow profile.

This guide may and is likely to change from time to time, including as the Federal Reserve Banks obtain feedback from various stakeholders. The Readiness Guide is not an agreement with the Reserve Banks and is not necessarily reflective of the final terms, operating procedures, or other documentation for the FedNow Service.

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