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[OP-1625]

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Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments [OP-1625]

Dear Sir or Madam,

As the German central bank, we believe that it is of great importance to help pave the way towards payments for a real-time economy. With that in mind, we would like to provide you with some preliminary thoughts based on our experience from the German resp. European perspective.

Below, you will find a few points for consideration as well as a few lessons learned:

[Role of central banks]

- Close cooperation with the market helped us to align the Central Bank owned and newly developed real-time system (TIPS) and RTGS infrastructure (TARGET2) to the requirements of the market as part of the transition to real-time payments. The role of the central bank as a coordinator proved essential due to the conflicting interests of the market participants.
- We believe that operating an instant payment platform could be considered as the logical next step in the evolution of the central bank's operator role –especially if the central bank is already active both as an ACH provider for mass payments as well as a provider of RTGS services. However, this is also true for those central banks currently only operating an RTGS system due to the blurring distinction between individual and mass payments. More generally, providing an Instant Payments platform as a central bank could promote

settlement of payments in safe Central Bank Money, facilitate a broad reach between connected participants and promote the uptake of instant payments in general.

- In any case, the interbank clearing of all SCT Inst transactions should be based on pre-funded central bank money, which is either held in a pooled account by the ACH or in our own TIPS infrastructure. While it puts an additional strain on banks' liquidity management, it effectively eliminates credit risk between banks.

[General remarks on instant payments]

- Real-time payments providing a fast, stable and secure solution to transfer money could also avoid consumers using alternative settlement mechanisms based on privately issued crypto-assets like bitcoin in order to benefit from end-to-end real-time transactions.
- ISO 20022 payment messages form the basis of interoperability between the different countries of the euro area and may help to enable cross-border instant payments in the future.
- Should you decide to impose a maximum limit on real-time payments, easy adjustments to the limit may help make it possible to cater for different use cases. For example, the limit for Instant Payment (SCT Inst) transactions is €15,000, which may be an obstacle for B2B payments. This is why, based on bilateral agreements between participants, an increase or a complete abolishment of the limit is possible.
- Due to the real-time settlement of instant payments, the value date has to be applied in a uniform way so as to prevent arbitrage over different time zones.
- Moreover, it should be taken in mind that any solution for instant payments should also allow for the development of efficient and convenient end-user solutions.

Yours faithfully,

Deutsche Bundesbank