

Proposal: 1670 - Federal Reserve Actions to Support Interbank Settlement of Faster Payments
Description:

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Subject: Federal Reserve Actions to Support Interbank Settlement of Faster Payments

Comments:

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Your comment: Nice job! An impressive document. Please consult digital money subject matter experts like Darrell Duffie and Larry Rufrano, both at Stanford) as you explore the alternative ways to implement FedNow.

I really think you should shoot higher than a conventional faster payment system. If you do this in 10 years, you will have achieved "catchup" with what the UK did 20 years earlier. Apple employs the "Wayne Gretsky" rule: skate to where the puck is going to be. We know where it will be in 5 years: today 9 of the G10 banks are actively looking at CBDC and Sweden will have a prototype running in 2020.

I think you should do a digital money system (those SME's above can explain the benefits)... you get the contemplated FedNow benefits essentially for free. But you'll get a much more flexible and robust result that will be state of the art for about the same amount of effort. And it is easier for banks to implement.

In particular, on the current track, 1) we will be 15 to 20 years behind the UK by the time it is live. 2) FPS APIs are always designed as single purpose, tightly coupled bank-to-FPS. Digital money APIs are much simpler and very general purpose. 3) Interoperability is a problem: Doesn't work for cross border payments 4) Only

marginally increases resilience vs. digital money which is full redundancy with existing FMI

5) Requires banks to manage their liquidity whereas with digital money it can be managed automatically 6) Clients interface to the bank; Banks then use FedLine network. This is not end-to-end secure due to the 2 hops.

In short, there are a lot of problem with picking a lesser target (a faster payment system), and you can avoid these by being a little more aggressive and targeting a digital money system that can accommodate both M0 and M1 money. These digital money systems (designed for banks and central banks) will be commercially available in late 2020.