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Proposal and Comment Information

Title: Collection of Checks and Other Items by Federal Reserve Banks and Funds Transfers Through the Fedwire Funds Service and the FedNow Service, R-1891

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Enclosed is a comment on R-1891.

Comments on Collection of Checks and Other Items by Federal Reserve Banks and Funds Transfers Through the Fedwire Funds Service and the FedNow Service; Regulation J

Docket No. R-1891 / RIN: 7100-AH23

Liability and Error Resolution

The Board should consider establishing a default liability and error-resolution framework for transfers using non-Reserve intermediaries, and solicit comment on the interaction with UCC Article 4A-302. If a sender designates a non-Reserve intermediary that fails to forward funds, misroutes a payment, or causes duplicate debits, that intermediary should be primarily responsible for returning funds to the sender or the sender's bank.

The Board should consider requiring that any receiving participant or intermediary that receives an ISO 20022 camt.056 (the standard XML message format for a Payment Cancellation Request) acknowledge receipt within 24 hours and provide an initial ISO 20022 camt.029 (the standard message format for a Resolution of Investigation) status update within 48 hours. Parties should remain free to contract around the default, but any deviation must be disclosed conspicuously in writing.

Transparency Regarding Funds Availability

To avoid consumer confusion, the Board should consider requiring standardized, plain-language disclosures that explain the difference in timing between the FedNow leg (the instant domestic transfer) and any subsequent intermediary or foreign-bank legs (subsequent international clearing channels, if future cross-border links are established).

Suggested consumer disclosure: *“When you send money using the FedNow instant payment service, the person you are paying will usually receive the funds right away. However, if your payment travels through a third-party service provider or goes to an international bank, delays may occur. International banks are not required to credit funds immediately. Please check with your financial provider for details on processing times and hidden intermediary fees.”*

AML, Sanctions, and Data Preservation

The Board should consider establishing supervisory expectations for AML (Anti-Money Laundering) and sanctions controls, proportionate to the speed of the instant-payment rail. At a minimum, non-Reserve intermediaries should be required to perform sanctions screening at the time they accept a FedNow payment order to reduce the risk of downstream bottlenecks.

Participants and intermediaries should retain full payment-chain metadata for a defined period, such as a five-year period consistent with Bank Secrecy Act recordkeeping requirements. The minimum metadata set should include: originator name; originator account identifier; originator

country; beneficiary name; beneficiary account identifier; beneficiary country; designated intermediary routing number and name; payment amount and currency; payment timestamp (UTC); payment order identifier; remittance information; and sanctions/AML screening results and disposition codes. The Board should consider requiring minimum ISO 20022-aligned field set where practicable.

Operational Readiness and Testing

The Board should consider establishing a phased deployment timeline and specialized testing environments for participants integrating non-Reserve intermediaries (third-party clearing service providers). To prevent system-wide disruptions, the Federal Reserve Banks should offer an isolated sandbox environment allowing financial institutions to simulate edge-case payment flows (i.e. uncommon or problematic transactional scenarios).

Furthermore, the Board should consider requiring an explicit certification process before an intermediary is allowed to go live on the network. This certification should validate the intermediary's capacity to handle sudden volume spikes and execute mandatory time-outs within the system's strict real-time clearing windows. Smaller financial institutions, such as community banks and credit unions, should receive extended implementation windows and pre-configured testing scripts to offset limited internal engineering resources.

As intermediaries become part of the FedNow transaction chain, it would be helpful for the Board to clarify that existing third-party risk management expectations—such as those outlined in the interagency guidance on third-party relationships—apply to FedNow participants relying on external intermediaries. This clarification would avoid the unintended creation of a parallel supervisory framework while ensuring that participants maintain appropriate oversight of intermediary control environments, particularly where those intermediaries support cross-border legs outside the FedNow participant perimeter.

Small-Entity Support and Fee Transparency

To maintain a competitive marketplace and prevent a tiered banking system, the Board should consider providing a 12-month compliance window for smaller institutions with total assets of \$850 million or less. This reduces the risk that smaller institutions face barriers to participation. Additionally, to prevent market inefficiency, the Board should establish a comparable consumer disclosure standard to the transparency standards in 12 CFR § 1005.31 (Regulation E). This should include a pre-payment disclosure of all "lifting fees" (i.e. intermediary fees or third-party intermediary fees), ensuring that the total "Amount Received by Recipient" is known to the sender at initiation.

Settlement Finality and Data Integrity

Full preservation of remittance and regulatory metadata should be the default. Where an intermediary cannot preserve specific ISO 20022 fields for a particular corridor, the intermediary should be required to flag the transaction with a "Data Loss Risk" indicator, provide clear pre-payment disclosure to the sender, and file a remediation plan with the Board. The Board

should solicit comment on whether and how to permit temporary, corridor-specific exceptions and on appropriate enforcement mechanisms.

The Board should clarify in commentary how the timing of sender discharge and settlement finality applies when a non-Reserve intermediary accepts a FedNow order, and should solicit comment on how these issues interact with UCC Article 4A.

The introduction of intermediary-enabled FedNow flows also has implications for liquidity timing and intraday credit management. While the proposal does not modify settlement mechanics, the sequencing of the FedNow leg relative to downstream foreign-rail execution may create short-duration liquidity asymmetries for intermediaries operating across time zones and jurisdictional cut-off windows. Clarifying how FedNow settlement finality interacts with existing daylight overdraft policies, and whether intermediaries may rely on established Fedwire liquidity tools when managing cross-border corridors, would support more predictable treasury operations and reduce the risk of liquidity fragmentation across rails.

Because the FedNow leg may settle irrevocably before the international leg completes, it would be beneficial for the Board to encourage participants to adopt clear, standardized disclosures regarding expected cross-border processing times, exception conditions, and refund pathways. Even non-binding guidance would help ensure consistent user expectations and reduce confusion about where FedNow's settlement finality applies within multi-segment payment chains.

Implementation Feasibility

Some intermediaries may argue that full data parity and real-time liability are technically infeasible for certain legacy currency corridors. The Board should solicit comment on the operational impact of ISO 20022 field truncation.

To address these concerns while maintaining high standards, the Board should consider a corridor-specific "Safe Harbor" approach. If an intermediary cannot maintain full ISO 20022 data parity for a specific foreign corridor, they should be required to flag that transaction with a "Data Loss Risk" indicator at the time of initiation, allowing for informed consent without lowering industry defaults.

Regarding liability, while primary intermediary responsibility is appropriate, an intermediary should not be liable for failures solely caused by a foreign beneficiary bank's insolvency. However, the intermediary must be held responsible for errors occurring within their own proprietary systems or chosen hand-off points.

The Board should solicit comment on a time-limited reporting regime (for example, up to 12 months) under which intermediaries that cannot preserve all ISO 20022 fields must flag affected transactions, provide pre-payment disclosure, and file remediation reports describing their technical roadmap toward full parity.

While the proposal focuses on cross-border enablement, the introduction of intermediaries also highlights the need for consistent exception-handling and message-state alignment across

domestic real-time rails, including FedNow, Fedwire, and private-sector RTP systems. Even voluntary coordination on message semantics, return-reason codes, and timeout expectations would reduce reconciliation friction for institutions that operate across multiple U.S. real-time networks and would support a more coherent national real-time payments environment.

A Corridor-Specific "Safe Harbor" Approach

Where full data parity is not immediately feasible for a specific corridor, the Board should consider adopting a temporary, conditional exception process. Under such a process, an intermediary would (1) flag affected transactions with a "Data Loss Risk" indicator at initiation, (2) provide clear pre-payment disclosure to the sender, and (3) file a remediation plan and timeline with the Board. Any exception should be time-limited and subject to reporting requirements; the Board should consider soliciting comment on operational feasibility and appropriate safeguards.

Proportionate Liability and "Known Failures"

Primary responsibility should rest with the designated intermediary for errors occurring within its systems or at its chosen hand-off points. Intermediaries should not be held responsible for failures solely caused by a foreign beneficiary bank's insolvency or by sovereign acts beyond the intermediary's control; the Board should consider soliciting comment on appropriate contractual allocations of risk for such scenarios and on model contractual language that allocates liability at the point of hand-off.

Phased Data Compliance

To balance operational realities with the goal of full data parity, the Board should consider a time-limited reporting regime. During an initial transition period (suggested: up to 12 months), intermediaries that cannot preserve all ISO 20022 fields for a given corridor should be required to (1) flag affected transactions, (2) provide pre-payment disclosure to senders, and (3) file quarterly remediation reports with the Board describing the technical roadmap and timeline to achieve full parity. The Board should solicit comment on the appropriate duration and reporting requirements.

Conclusion

Permitting non-Reserve intermediaries on the FedNow Service can materially expand the rail's utility for cross-border commerce, but safe adoption requires targeted regulatory and supervisory clarifications. The Board should consider adopting or publish model language and guidance on default liability and error resolution, require clear consumer disclosures about funds availability, set proportionate AML/sanctions and metadata retention expectations, mandate phased testing and risk-based certification, and require standardized monitoring and incident reporting. For corridor-specific or cross-jurisdictional issues—such as data-parity constraints and finality questions—the Board should solicit industry data and public comment and consider time-limited, conditional exception processes rather than immediate prescriptive bans. These steps will support innovation while preserving consumer protection, operational resilience, and the integrity of the instant-payment ecosystem.

Thank you for considering these comments.

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