10 Questions for the FedNow Launch

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The Federal Reserve is preparing to launch its real-time payments network, FedNow. The unveiling comes several years after the launch of a private-sector real-time payments service, the RTP Network – while some have implied that FedNow is filling a void in the market, instant payments have been readily available for six years. As a government alternative, FedNow faces different considerations than its private-sector counterpart, such as whether it is losing taxpayer money, how much transparency surrounds its budget and business plan and how the Fed will ensure it complies with statutory requirements to recoup all the costs it incurs in operating a payments system. The FedNow launch also raises questions of fairness – will the Treasury Department or banks be pressured to use the government-run system?

Here are some questions to ask when that announcement comes.

1. How much taxpayer money has been spent to develop FedNow?

It is difficult to conceive of any justification for keeping secret how much has been spent on FedNow. Every dollar spent on FedNow comes from the taxpayer in the form of future higher taxes, as all money spent on FedNow would otherwise be remitted to the United States Treasury and used to reduce the public debt. Congress has never appropriated funds for FedNow or reviewed the program in any way, and yet taxpayer money has been spent on it for years. So, how much has it cost to date?

2. When will FedNow break even and when (if ever) will it recoup the taxpayers' investment in it?

Under the Monetary Control Act, the Federal Reserve is legally required to recoup all of the costs it incurs in operating a payment system. By statute, those costs include not only fixed and variable costs but also an imputed tax rate. When does the Federal Reserve anticipate breaking even and thereby making taxpayers whole on their investment in FedNow?

3. What is the business plan for the next five years for FedNow?

Again, a taxpayer-funded business should have a business plan and a public budget. Ordinarily that takes the form of a Congressional authorization and appropriation, with appropriate oversight by the relevant Congressional committee. Here, the Fed has simply deducted its startup costs from its Treasury remittance and will continue to do so for its operating costs, subject to no oversight. Other government corporations — the Export-Import Bank, Amtrak, the Tennessee Valley Authority, the Postal Service — all have public budgets and generally operate with full transparency. Will the Fed's business plan and budget be kept a secret?

4. What checks and balances prevent the Federal Reserve from inappropriately pressuring banks to join and use its new government-run payment system as opposed to the existing private-sector alternative, RTP?

There are anecdotal reports that banks are receiving pressure through the supervisory process to join and use FedNow. Will the Fed establish a way for banks to report any such activity to an ombudsman or the inspector general's office?

5. Will the U.S. Treasury improperly grant the Federal Reserve a sole-source, no-bid contract for the U.S. government's payments business?

In a recent speech, a Treasury official noted that the Department has signed up as an early adopter of the FedNow payment service. In the six years since the RTP service was launched, the Treasury has refused to pilot, much less use, that system, despite a strong track record. Furthermore, for at least some time, the RTP service will have far greater reach than FedNow. So, what is its justification for refusing to pilot or use RTP? Has it entered into any contracts or other agreements with the Federal Reserve with regard to future business, or established parameters for what it expects FedNow to do? If so, why not disclose them, so Congress can conduct oversight of how it is serving the U.S. public?

6. Is the Federal Reserve paying private technology companies to help onboard private banks to FedNow?

Although the Federal Reserve set the cost of FedNow transactions at the same level as RTP, there are reports that it has been paying tech vendors for each bank that they enable to join the system. Is that correct?

7. Who is responsible for, and will be held accountable for, the success or failure of FedNow?

Other government corporations have clear leadership structures: a CEO, a general counsel, etc. Nothing has been disclosed about who is in charge of spending (and perhaps losing) large amounts of taxpayer money. Who is the CEO of FedNow? Who is the CRO? Who is the CFO? Who is responsible for certifying that FedNow's pricing and practices are in legal compliance with the Monetary Control Act?

8. Why hasn't the Federal Reserve prioritized making its Fedwire Funds Service available 24 hours a day and 7 days a week? Will the Federal Reserve commit to action to make this a reality?

Expanding the Fedwire Funds Service to operate 24/7 would have been extremely valuable to banks, businesses and consumers. When Chair Powell appeared before the House Financial Services Committee in March of this year he was asked why the Fedwire is not available 24/7, and he replied that he was "not sure why we're not 24/7 on that." Is there any update?

9. Who is going to examine FedNow for compliance with consumer laws, the Monetary Control Act and economic sanctions?

10. What *exactly* is going to happen on the "launch date"?

The Fed has announced that 41 financial institutions have completed the "certification" for the FedNow service, but it is unclear how many will be joining at launch and whether any actual commerce will be occurring. Successful payment networks require active senders as well as receivers. How many banks will be sending payments and not just receiving them? And how many corporate customers of these banks will be sending FedNow payments? As a frame of reference, over 150,000 U.S. businesses are actively using RTP to send payments today.

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