

Davis Polk Client Memorandum: Federal Reserve Announces Plan to Build Its Own Real-Time Gross Settlement System for Retail Payments

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The Federal Reserve has announced that it plans to build its own 24x7x365 real-time gross settlement (**RTGS**) system for retail payments, called the FedNow Service. In a 4-1 decision, with Vice Chairman for Supervision Quarles dissenting, the Federal Reserve stated that the FedNow Service would allow consumers and businesses to settle retail payments in real time through the U.S. commercial banking system at any time of the day or night, 365 days a year. The Federal Reserve anticipates that the proposed new service will be available by 2023 or 2024.

While the Federal Reserve's decision to build its own around-the-clock RTGS system for retail payments has been widely supported by most smaller banks, technology companies and certain members of Congress, it has been opposed or questioned by The Clearing House, the Bank Policy Institute and certain other members of Congress.

Our [client memorandum](#) discusses the Federal Reserve's primary justification for establishing its own RTGS system for retail payments, as well as the legal and policy considerations the Federal Reserve was required to consider before doing so.