FPC Pre-Release Event
Faster Payments Interoperability Primer

May 20, 2020

Antitrust Compliance Statement

The U.S. Faster Payments Council, Inc. ("FPC") has adopted a policy of strict compliance with the U.S. antitrust laws. Certain topics that may be considered anticompetitive are not proper subjects for discussion or consideration at any FPC meeting of members, officers, directors, or committees, whether formal or informal. The antitrust laws prohibit certain combinations and agreements among competitors, including those in the payments industry, and members of an association may be considered competitors for purposes of antitrust challenges even if their businesses are not in the same geographical areas or in the same product lines. A member's conduct at all FPC-sponsored or FPC-scheduled meetings and events should comply with antitrust laws. The penalties for violation of the antitrust laws can be very severe – not only for FPC, but also for its individual members.

FPC members cannot come to understandings, make agreements, or otherwise concur on positions or activities that in any way tend to raise, lower, or stabilize prices, costs, or fees, divide up markets, or encourage boycotts. Each member must decide for itself, without consultation with competitors, how to conduct its business and with whom to do business. Specifically, members should not agree on:

- Current or future prices or fees, price or fee changes, discounts, regulation of production, and other terms of sale.

- Allocating or monopolizing geographic markets or customers;

- Encouraging boycotts or seeking to exclude specific participants.

In addition, FPC officers, directors, and members should avoid discussing or revealing any individual participant's competitively sensitive information, including any participant's prices, discounts, costs, capacity, inventory, sales, future business plans or bids for contracts. The FPC's antitrust statement shall be referenced at the start of each meeting where FPC business will be discussed and noted in the minutes of the meeting, and this statement will be included in the meeting materials as well.

The antitrust laws are complicated and often unclear. If any member is concerned that he or she may be in a "gray area," that member should consult with FPC or legal counsel. If the conversation among competitors at an FPC meeting turns to antitrust-sensitive issues, participants should discontinue the conversation until legal advice is obtained, or else leave the meeting immediately.

FPC Pre-Release Event
Faster Payments Interoperability Primer

May 20, 2020

- **Welcome**

- **What is the Network Committee**

- **Why we did we draft a paper on payments interoperability?**

- **Models & Overlays**

- **Settlement**

- **Q&A**

- **Wrap-up**

FPC Network Committee

Reed Luhtanen
rluhtanen@fasterpaymentscouncil.org

Steve Ledford
steve.ledford@theclearinghouse.org

Laura Weinflash
Laura.Weinflash@earlywarning.com

Kirstin Wells
kirstin.e.wells@frb.gov

FPC Network Committee

Matt Friend
mfriend@visa.com

Richard Luchak
Richard.Luchak@viewpointe.com

Jorge Jimenez
jorge@juniperpayments.com

Models & Overlays

Point of Origination Model

Consumer → Payment Originator → Payment Clearing & Settlement Network → Payment Service Provider/ Financial Institution → Business

Payment Originator → Payment Clearing & Settlement Network → Payment Service Provider/ Financial Institution → Consumer
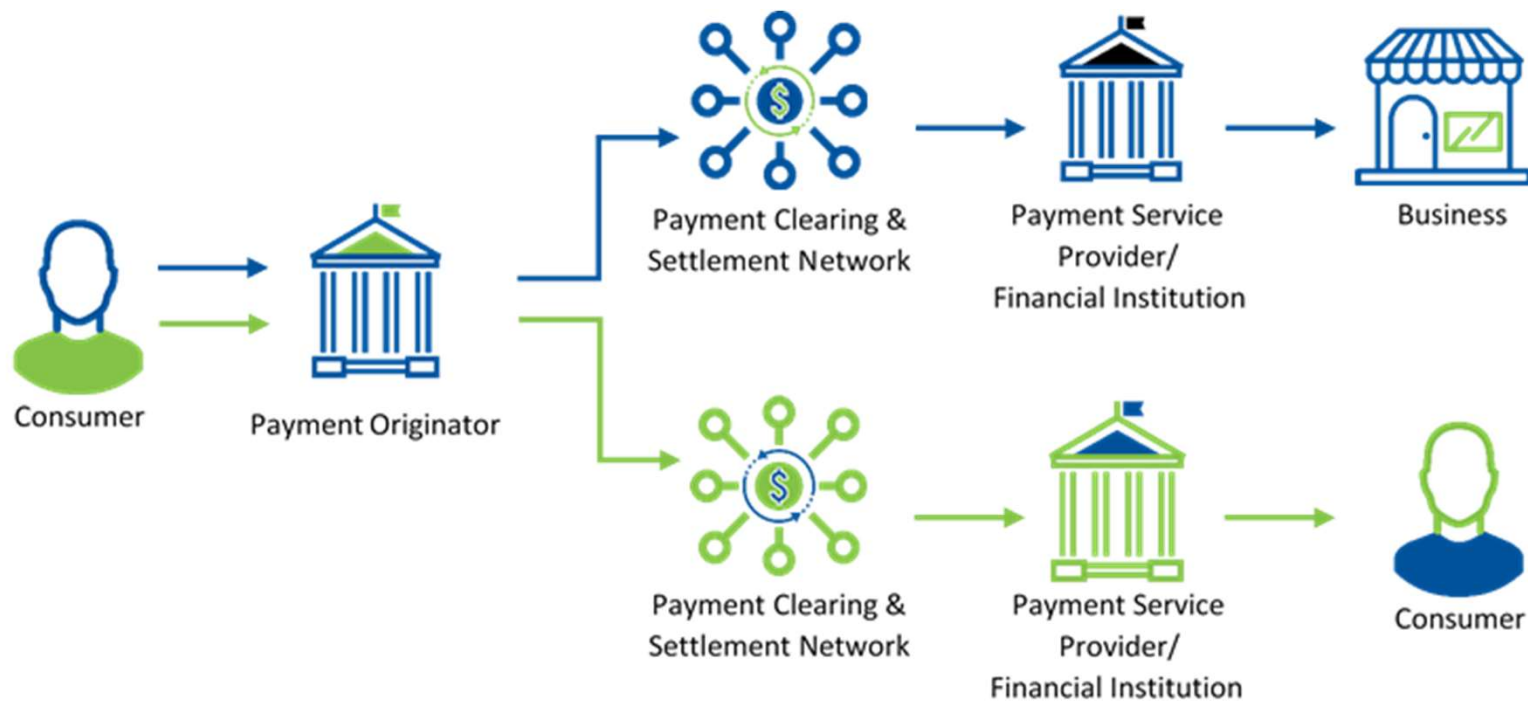
Overlay Services

User Enrollment Experience

Cindy enrolls in the overlay service. She agrees to the terms of service.

Cindy agrees to the specific Payment Service Provider terms and conditions. Examples of the terms of service include the expected user experience, speed of payments, the costs, the liability and/or charge back rights, availability of funds, and the dispute process.

User Experience

Cindy sends Paul $500

$500

Paul receives $500 in minutes through the service provider app.

Funds Posted

Debit Cindy's account $500 and message Payment Network. Funds moved to settlement account. Message Cindy completion

Bank A
Network Participant

Messages

Payment Network

Messages

Bank B
Network Participant

Credit Paul's account $500.
Message Paul Funds Received

Settlement

Funds transferred from Bank A to Bank B

Payment Clearing & Settlement Network

Bank A
Settlement Account
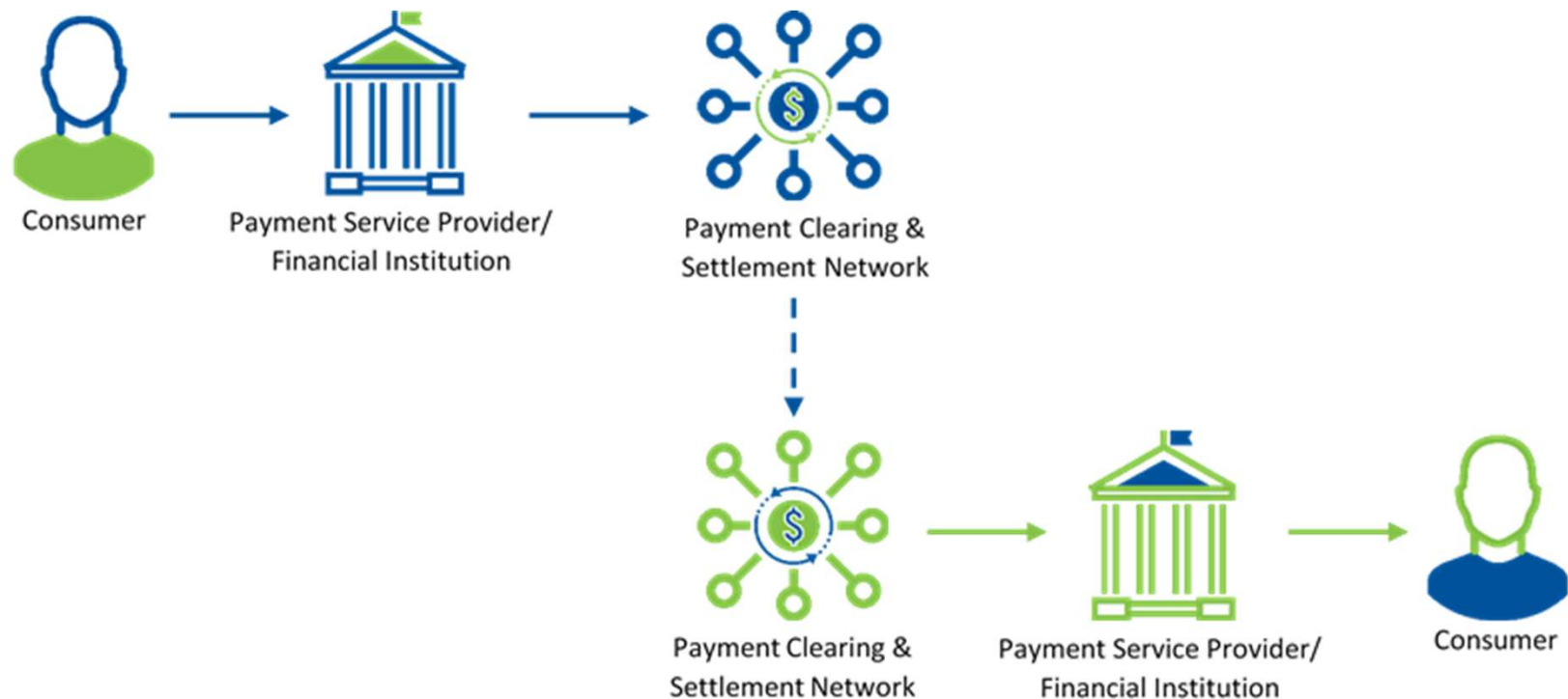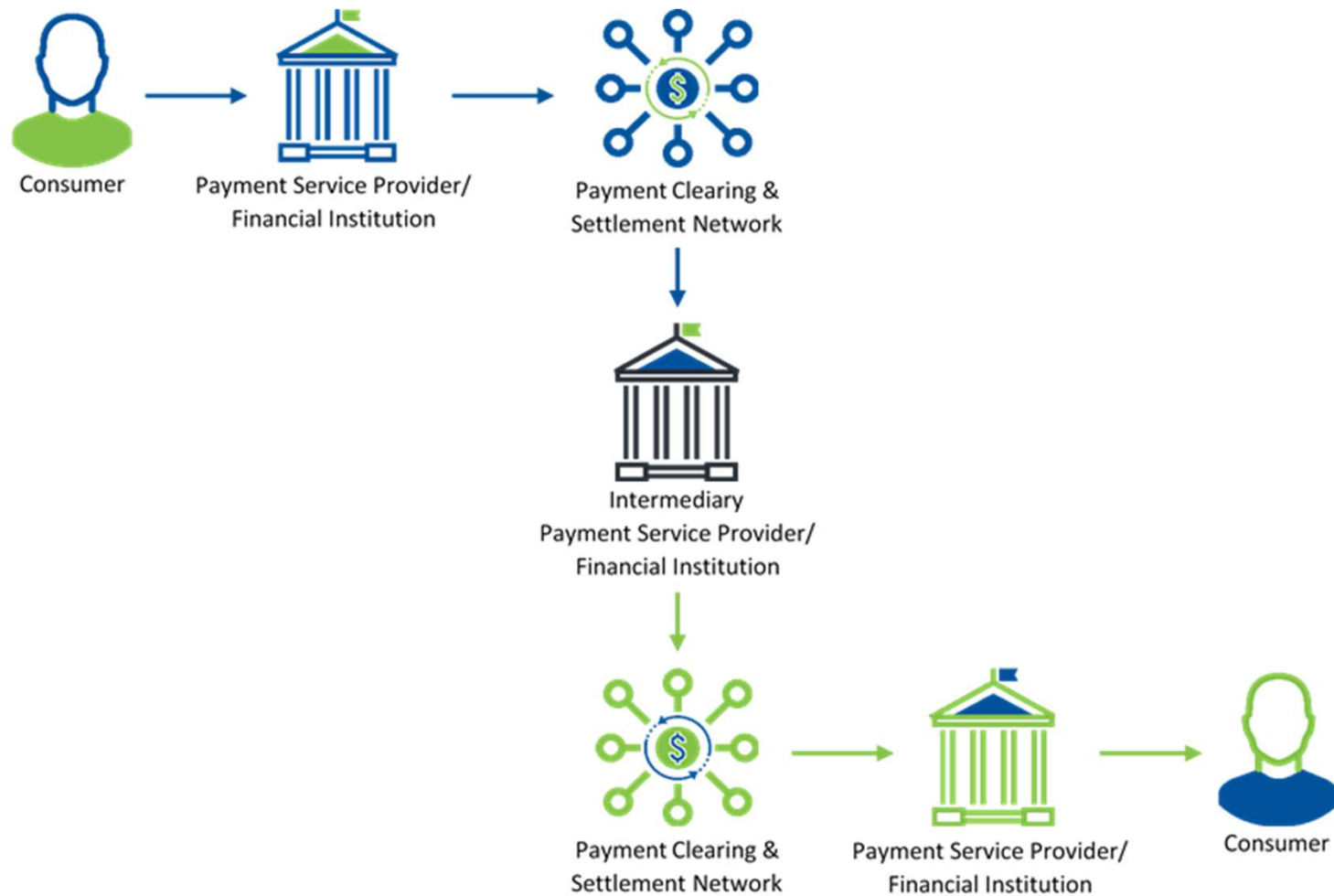
Bank B
Settlement Account

Network to Network Model

- Payment initiated on one network can be delivered to a receiver on another network
- FIs do not need to connect to both networks (except for settlement)
- Comparable to EPN/FedACH arrangement

Consumer → Payment Service Provider/ Financial Institution → Payment Clearing & Settlement Network → Payment Clearing & Settlement Network → Payment Service Provider/ Financial Institution → Consumer

Intermediary Model
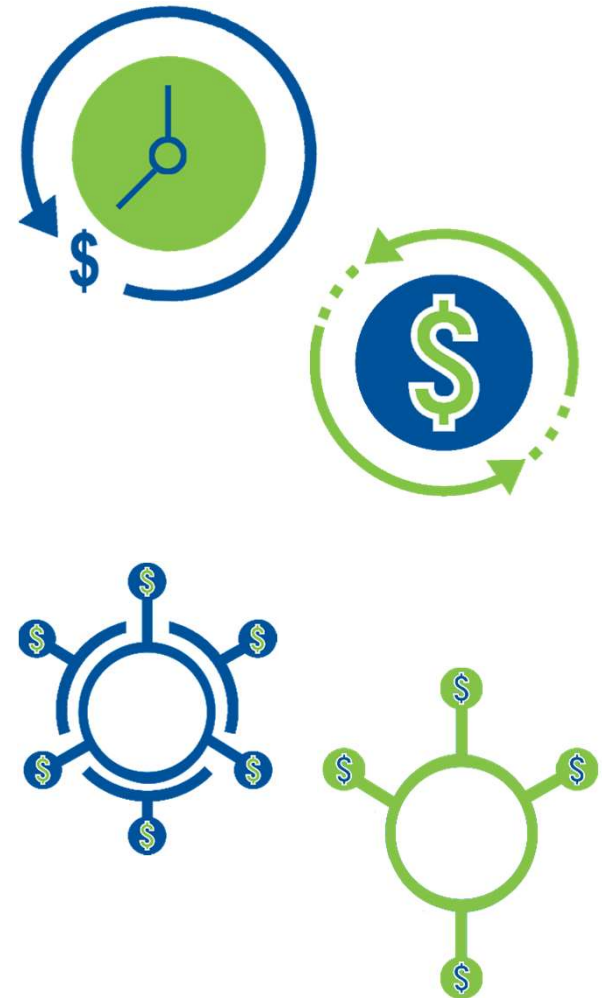
Settlement

Understanding Settlement

- **Timing: Deferred or Real-time Settlement**
  Payments can be settled in real-time,
  (at the same time payments are cleared), or
  settlement can be deferred until later.

- **Netting: Gross or Net Settlement**
  Each payment can be settled individually, what
  is known as gross settlement, or a group of
  payments can be netted against each other and
  settled for the net amount.

  Net settlement processes can be further divided
  into bilateral net settlement between two
  parties, and multi-lateral net settlement among
  multiple parties.

Types of Settlement

Deferred Gross Settlement
At predetermined times, individual payments or their aggregate are settled

Deferred Bilateral Net Settlement
At predetermined times, only the net amount of what is owed between two parties are settled

Deferred Multilateral Net Settlement
At predetermined times, only the net amount of what is owed across all participants are settled

Real-time Gross Settlement (RTGS)
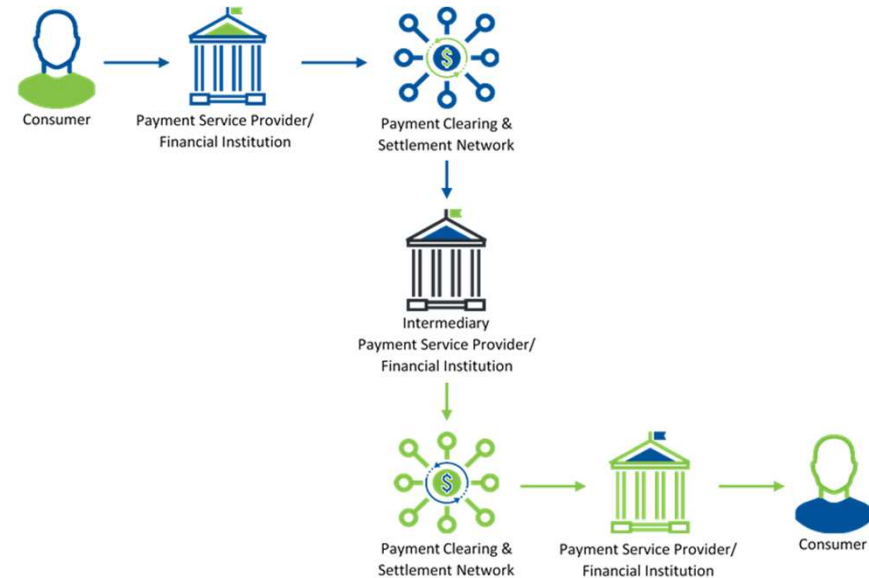At the same time as the underlying payment is cleared, the item is also settled
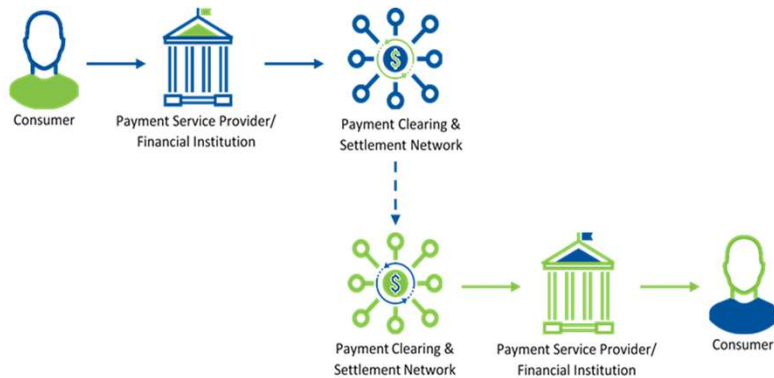
Settlement Interoperability

Why is settlement important? Intermediary Model

Bank Liquidity

- Spreads liquidity among multiple accounts
- Instant Payments make position harder to calculate, specially through RTGS for those FIs with a batch core system
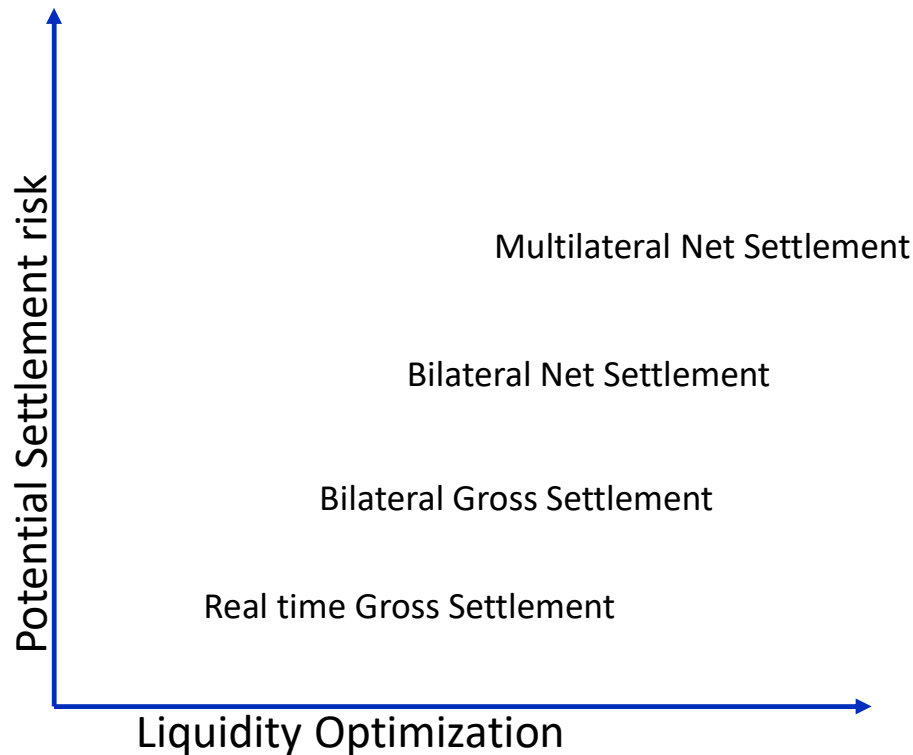
Why is settlement important? Network to Network

Consumer → Payment Service Provider/ Financial Institution → Payment Clearing & Settlement Network

Payment Clearing & Settlement Network → Payment Service Provider/ Financial Institution → Consumer

Networks Liquidity

Most network interoperability relies on deferred settlement (i.e. EOD), and interoperator agreement on settlement.

There is a **balance** between optimizing **liquidity** vs potential **settlement risk** credit risk mitigation arrangements that are put in place to manage counterparty credit risk .

Why is settlement important? Network to Network

Potential Settlement risk

Multilateral Net Settlement

Bilateral Net Settlement

Bilateral Gross Settlement

Real time Gross Settlement

Liquidity Optimization

Offsetting Risk:

Collateral and recourse should be present in an interoperator agreement for net positions.

Interoperator pricing would likely reflect each settlement type.

Q&A

Thank you!

Mark your calendars and please join us for these upcoming FPC events

Date	Format	Topic
June 17	Webinar	Faster Payments Qualitative Analysis with Glenbrook Partners
September 15-16	Member Meeting	FPC Fall Member Meeting

A recording of today's FPC Town Hall will be available in our FPC Member Portal and a survey about our Town Hall series will be distributed in May.

fasterpaymentscouncil.org

memberservices@fasterpaymentscouncil.org