**PREPARING FOR
REAL-TIME PROCESSING**

Customer Payment Flow

One of the primary advantages of the FedNow Service is its ability to clear and settle transactions in real time — allowing financial institutions (FIs) of all sizes to enable their customers to instantly send and receive money.

The following is a step-by-step overview of the FedNow Service payment process in which the Federal Reserve Banks settle and execute and the Receiver FI accepts a customer payment message.

Follow the Payment Flow

For this sample flow, the Sender FI or Receiver FI may either send and receive messages to and from the service or designate a service provider to act as its agent (e.g., a processor, core solution or other payment hub) to perform those functions on its behalf. A participating FI may settle using its own Federal Reserve Bank master account or it may designate a correspondent for that purpose. See the **Settlement** topic for more information.
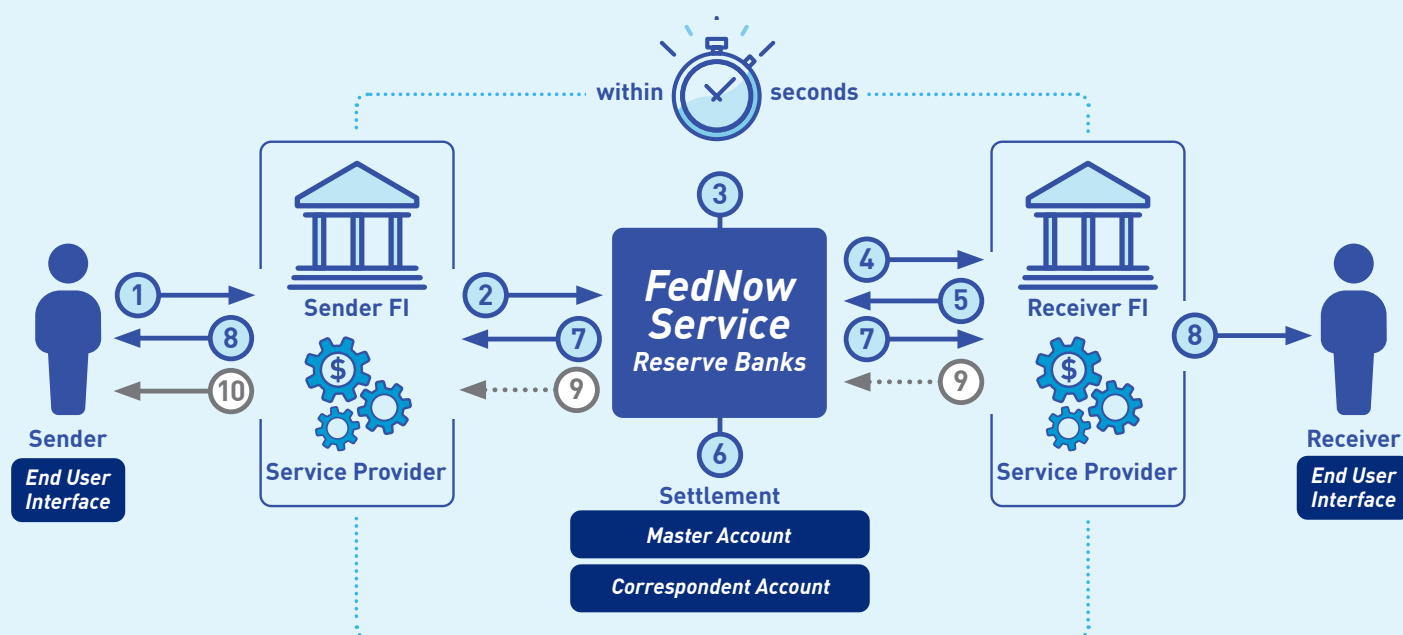
Step 1: Initiation: The sender (an individual or business) initiates a payment with their FI through an end-user interface outside of the FedNow Service. The FedNow Sender FI is responsible for validating the payment according to its internal processes and requirements.

Step 2: The Sender FI submits a payment message (ISO® message pacs.008) to the FedNow Service.

Step 3: The FedNow Service validates the payment message — for example, by verifying that the message meets proper format specifications and complies with applicable controls.

Step 4: The FedNow Service sends the contents of the payment message to the recipient's FI to seek confirmation that the Receiver FI intends to accept the payment message. At this point, the Receiver FI will determine how it will handle the message (accept, reject or accept without posting (ACWP)). Among other things, the Receiver FI should use this step to ascertain whether it maintains an account for the recipient identified in the contents of the payment message. See the **Funds Availability** topic for more details on each of the ways the Receiver FI may respond.

Step 5: Confirmation: In this example flow, the Receiver FI sends a positive response of "accept" to the FedNow Service, confirming it intends to accept the payment message. **Note:** *Steps 4 and 5 are intended to reduce the number of misdirected payments and resulting exception cases that can occur in high-volume systems.*

Step 6: The FedNow Service settles the payment, debiting and crediting the designated master accounts of the Sender FI and Receiver FI (or of their correspondents), respectively. Steps 2-6 complete within a few seconds but take no more than 20 seconds. See the **Understanding the Payment Timeout Clock** topic for a deeper look at the timing of a payment.

Step 7: The FedNow Service sends an advice to the Receiver FI and an acknowledgement to the Sender FI, executing the payment order and notifying each that the Federal Reserve Banks settled the payment message. Correspondents enabled within a FedNow profile may choose to receive a notification of debit/credit entries (ISO message camt.054).

Step 8: Funds availability and notification to customer: As a term of participation in the FedNow Service, the Federal Reserve Banks require the Receiver FI to make funds available to the recipient immediately after step 7.

Participants should consider what processes they need to have in place to respond to the request for confirmation, make funds available to recipients, provide notice to senders and recipients, and respond to a request for payment status (ISO message pacs.028) sent from the Sender FI with a payment status report (ISO message pacs.002). For more information on ISO 20022 messages, please see the **ISO Overview** topic.

In communicating with the recipient, the Receiver FI should notify its customers immediately following receipt of an advice, and may use any reasonable means of communication that is consistent with their customer agreements, including standard channels for which the recipient is enabled.

Note: If the Receiver FI responds with "ACWP," it is not required to make funds available after receiving the advice through the service. Instead, the Receiver FI is required to do so if it accepts the payment (see the ACWP spotlight in the **Funds Availability** topic).

The Sender FI should use information in the acknowledgement (pacs.002) from the FedNow Service to notify its sending customer that the payment to the Receiver FI is complete.
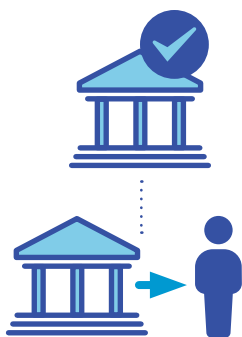
Step 9: Confirmation of posting: In general, the Receiver FI has the option of sending a message through the FedNow Service to the Sender FI indicating that the payment has been posted to the recipient's account. See the ACWP spotlight in the **Funds Availability** topic for the circumstances in which the Receiver FI is required to send a confirmation of posting.

Step 10: If the Receiver FI sends a confirmation of posting message through the service, the Sender FI should notify its customer that the funds have been made available to the recipient.

Setting a Time Limit

The FedNow Service limits processing of messages to within 20 seconds and settles in this set amount of time or not at all. While the Federal Reserve Banks expect most payment messages to settle in a few seconds, well below the maximum allowable limit, the payment timeout clock sets expectations for FIs that transactions submitted to the service are settled or rejected almost immediately.

Please refer to the **Understanding the Payment Timeout Clock** topic for further information, including how time is allotted and how messages are exchanged throughout this process.