



# Liquidity Management, A.K.A. Cash Management: A Challenge for Real-Time Payments

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MEMBER  
MEETING



# Liquidity Management Panel Members



**Karrie Rodriguez**  
*Asst. Vice President*  
**FedNow**



**Barry Tooker**  
*Principal*  
**Transaction**  
**Banker.com**



**Todd Koehn**  
*VP, Faster Payments*  
**Bankers' Bank**



**Rodman Reef**  
*Managing Principal*  
**Reef Karson**  
**Consulting**



**Rupa Krishnan**  
*Managing Director*  
**JP Morgan**

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# Liquidity Management

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# Federal Reserve Master Accounts

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- The Federal Reserve has established an account structure that centralizes the account relationship between a depository institution and a Federal Reserve Bank through a single master account.
  - Each separately chartered institution may have one master account at a designated Reserve Bank; with three exceptions for merger transition accounts, foreign-related institutions, and excess balance accounts (see Exceptions to One Master Account Rule). The use of optional secondary routing transit numbers (RTNs) provides an institution with flexibility to segregate its account information.
  - Financial Institutions that do not have a master account must identify a correspondent that agrees to settle debit and credit transaction activity.
  - A master account may identify a correspondent to settle some of its debit and credit transaction activity.



# Federal Reserve Master Accounts

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- For each institution, all credits and debits resulting from the use of Federal Reserve Financial Services (such as Fedwire® Funds Service, National Settlement Services, FedACH® Services, etc.) at any Federal Reserve office are booked to this single master account at one Reserve Bank.
  - These systems also facilitate the transfer of funds between financial institutions.
- Reserve administration is also managed through this account, unless an institution has entered into a pass-through agreement with a correspondent.
  - All end-of-day balances maintained in a master account during the reserve maintenance period are used by the institution to satisfy its reserve balance requirement.



# Federal Reserve Master Accounts

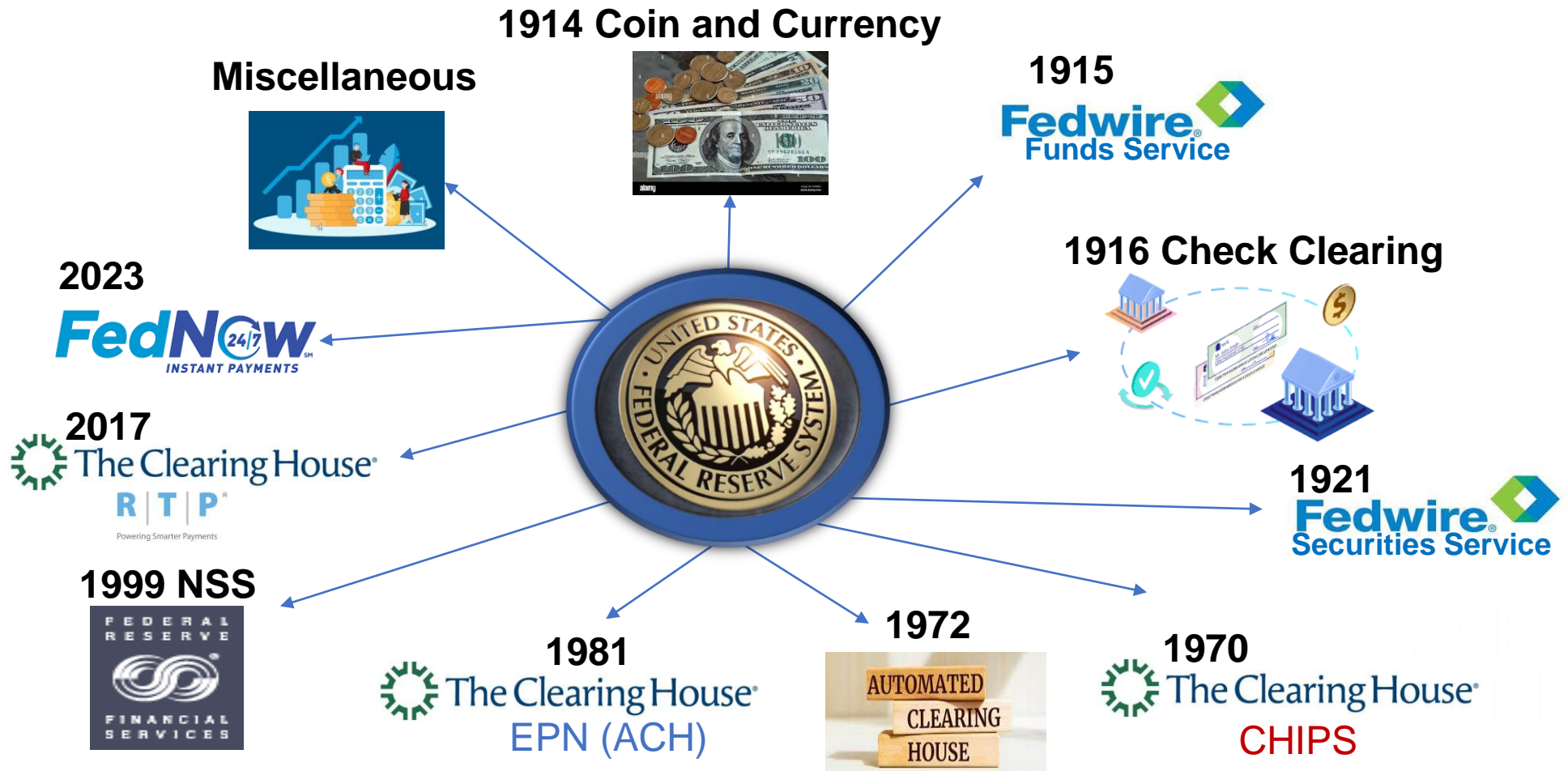
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- To do a credit push FedNow or FedWire transaction, there must be sufficient funds in the master account to cover the transaction. Similarly, to “purchase” coins or new bills, there must be sufficient funds in the master account to cover the transaction
- Access to the Discount Window is available to eligible financial institutions to provide short-term liquidity needs.
  - This should be considered a short loan
  - The funds flow into your master account or the master account of your correspondent
- Joint accounts to facilitate settlement between eligible depository institutions participating in private-sector payment systems are available.



# Transactions Affecting Master Account at the Federal Reserve

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Financial institutions participating in the FedNow® Service (or their correspondents) will need adequate funds or available credit (liquidity) in their master accounts at all times to enable continuous processing of instant payments. This may involve making internal adjustments, or sourcing liquidity from another financial institution or a correspondent.

## Balance Inquiries

Real-time balance inquiry reports are available via the FedNow Service and the Account Management Information (AMI) application.

Financial institutions are expected to manage their account in compliance with Federal Reserve policies, including the Payments System Risk (PSR) Policy on intra-day credit and avoiding negative balances at the close of the FedNow cycle date.

## Transaction Limits

Financial Institutions have the ability to adjust credit transfer value limit, which is currently as follows:

**Default Transaction Limit = \$100,000**

**Maximum Transaction Limit = \$500,000**

## Liquidity Management Transfer (LMT)

Liquidity Management Transfers in the FedNow Service are used to support liquidity needs related to payment activity in the FedNow Service or another instant payment system backed by a joint account at a Reserve Bank.

Financial institutions that use a correspondent to settle FedNow activity are allowed to receive liquidity transfers, which will be posted to the correspondent's master account.

LMT is available for use between the hours of 7PM – 7AM ET Monday – Friday (excluding holidays) and 24 hours on weekends/holidays

**Transaction Limit = \$2,500,000**

**Accumulative Limit = \$10,000,000 per day**





# Monitoring, Managing and Maintaining Liquidity

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- The difference today from a few years ago is the Master account is operating 24X7X365
  - Alternative usage of the funds also have real value now that interest rates are substantially higher than zero
  - Instead of supporting payments, the funds can be used for potentially more profitable loans and investments
- Funds management is more challenging and complex with instant payments
  - Need to forecast, monitor and manage usage by service (FedNow, FedACH, etc.)
  - The Federal Reserve provides balance reports and have new FedNow reports to assist with account management and reconciliation functions.
  - You may also consider building or buying tools to help with this process
- Don't forget liquidity management includes funds in bank accounts at correspondents



# Q & A

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