

Fedwire Funds Service – Payments Ops & Settlement Guide

This guide contains all Fedwire knowledge required for payments operations, settlement finality, and regulatory understanding. It replaces the need to read full Federal Reserve manuals.

1. What the Fedwire Funds Service Is

The Fedwire Funds Service is the Federal Reserve's real-time gross settlement (RTGS) system for high-value, time-critical U.S. dollar payments between financial institutions.

- Operated by the Federal Reserve Banks.
- Settlement occurs in central bank money on master accounts.
- Each payment is processed individually (gross, not net).

2. Who Uses Fedwire

- U.S. banks and eligible financial institutions holding Federal Reserve master accounts.
- Used for interbank settlements, large corporate payments, and settlement of other systems (e.g., CHIPS).

3. Fedwire Payment Flow (Step-by-Step)

1. Sending bank submits a payment order via secure Fedwire network.
2. Federal Reserve validates the payment format and account status.
3. Sender's master account is debited immediately.
4. Receiver's master account is credited immediately.
5. Payment is final and irrevocable once processed.

4. Settlement Finality

Fedwire provides immediate, final, and irrevocable settlement under U.S. law. Once a payment is accepted and processed, it cannot be unwound.

- Finality is legally protected.
- No netting or end-of-day settlement delay.
- Eliminates credit risk between participants.

5. Liquidity, Funding, and Daylight Overdrafts

Fedwire participants must have sufficient balances or access to intraday credit to send payments.

- Payments are funded from balances in master accounts.
- Daylight overdrafts allow temporary negative balances, subject to limits and fees.
- Overdrafts are collateralized and monitored by the Federal Reserve.

6. Risk Controls & Oversight

- Participant eligibility and access controls.
- Transaction validation and account balance checks.
- Supervision and oversight by the Federal Reserve.

7. Why Fedwire Matters for Cross-Border Payments

- Ultimate settlement of USD legs in cross-border transactions.
- Anchor for correspondent banking and USD liquidity.
- Final settlement point for systems like CHIPS.

8. What Fedwire Is NOT

- Not a messaging-only system (it moves money).
- Not used by retail customers directly.
- Not reversible once settled.

9. Core Ops Takeaways

- Fedwire = settlement finality.
- If funds are settled on Fedwire, the payment is legally complete.
- Many payment issues occur before or outside Fedwire.