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Reserve that allows eligible depository institutions of different sizes across the U.S. provide instant payment services.

Brian Tankersley • Randy Johnston • Mar. 22, 2024



**ACCOUNTING  
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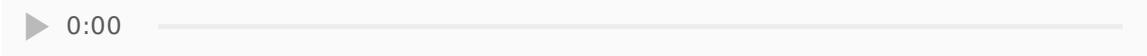
**LISTEN NOW** -▶

Hosts Randy Johnston and Brian Tankersley, CPA, discuss and review [FedNow](#), a new instant payment infrastructure developed by the Federal Reserve that allows eligible depository institutions of different sizes across the U.S. to provide instant payment services.

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**Transcript** (Note: There may be typos due to automated transcription errors.)

**Brian F. Tankersley, CPA.CITP, CGMA 00:00**

Welcome to the accounting Technology Lab sponsored by CPA practice advisor, with your hosts, Randy Johnston, and Brian Tankersley.

**Randy Johnston 00:10**

Good day, welcome to the accounting Technology Lab. I'm your host, Randy Johnson with co host, Brian Tankersley. And we have a very simple topic to talk about today that you need to know about. And that is fed now now fed now went live July 20, of 2023. And it's a big deal as I see it, because it's going to change the way the payment rails work here in the United States. Now, most of you are familiar with ACH and bank to bank transfers, as well as more advanced features like wire transfers, and so forth. But thin now is a capability that allows the transfer of funds pretty much within a few hours, same day, 24 hours a day, the better way.

**Brian F. Tankersley, CPA.CITP, CGMA 00:58**

So within minutes, isn't it is within

**Randy Johnston 01:00**

minutes is really the intent. And so this is really, you know, sending and receive

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think it's something that first off, we have to remind ourselves that this is a new technology. And this is one that has not made its way all the way into into the existing offerings. So you will see, again, when we start looking at the traditional building vendors, you know, the topologies, the the bill dot coms, the you know, the others out there, they have a business model that includes monetizing, hanging on to the money for a couple of days and playing and getting interest on the float. And this really gets rid of the float, okay, it also is going to change the fee structures that we have from banks, where ACH is, you know, maybe 50 cents apiece, or \$1 apiece, or something like that, on your bank statement. Suddenly, now these instant transfer, you know, and wires are \$10 apiece, most places. Now we've got, now we're going to be able to do this for a lower price. And so and do it faster. And so it's a it's a significant shift here. But it's really going to depend on when your institutions adopted and when the tools you use adopted. But it is something that is potentially transformative for, for again, folks trying to trying to get their hands on you trying to get their collections improved. Yeah.

**Randy Johnston 03:15**

And you know, if you think about personal services, the Venmo is the Zales those type of things. This is far more useful, I think in a business to business environment. Now, the first release of Fed now included features like fraud prevention tools, and the ability to join us, initially as a receive only participant of the request for payments, and then tools to support, you know, handling payment inquiries. There's going to be more features put in this over time. And I think Brian, you pointed out that you had located a very interesting list of the participating banks. That you know, as I've watched this unfold, there were only a few participating institutions. In the first round of this in the first three, four weeks, I think it was only 19 or 21 at that point in time. But it looks like now there's hundreds Is that a fair statement.

**Brian F. Tankersley, CPA.CITP, CGMA 04:11**

The last press release, I saw said 600. So there, it's something that's definitely it's

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your client level as well. And the biggest risk that we see is you lose some of the ability to claw back punch. Let's see sometimes today when you make a transfer or write a check, you can put a stop payment on a check, for example. But with that now when it clears the money's out of your account, so you're going to have to make real sure that the ACH transaction is going to the place that you expect it to go. Because you're going to be at the mercy of the recipient to return the funds, if that's needed. Now, there's a multiple set of providers that are providing these services. And, you know, if I asked you, Brian, for the hottest technology right now, FinTech probably isn't the first word that had roll off your tongue. Although two years ago, FinTech was very, very hot. But when we consider as you just named the AP providers who are making money on the float, or the, you know, payment recipient providers, you know, the quick fees and the CPA charges, and some of those, they're going to have to incorporate this in their model as I see it. And they will not make the money off the exchange rate. Now, I'm not trying to set or disclose pricing, that's not my intent here. But as Brian just called out, many of the providers are going to do these transactions in the less than 10 cent range. And I've seen some of it down in the pennies range. So again, if you consider clearing items, checks to most of you, if you consider clearing items, a typical item clearing charge might have been 10 cents to 25 cents per item. And it eventually declined. Same way with Ach, we have a lot of you know, fairly high fees that were related to that. So you know, right now, the Fed now, service fee schedule has a different rates for different items, it is not at the rate that I'm talking about right now. But for example, it is a four and a half cents for a credit transfer origination. It is the same for both customer credit transfer and regular credit transfer returns, I guess I should say, it is also currently on the liquidity management transfer \$1 an item, but a request for payment is only a penny. So just begin to imagine that you can ask for a payment. In other words, do an invoice and request a payment and your cost in it is a penny. Now, the setup fees, which you know, if you remember the old days of credit card machines in your businesses, you often had to pay a fee plus the rental on the machine. That's only \$25 A month right

now, or originally was only \$25 a month, and now it's down to zero. So if you just

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all the dollars behind that. I do know a fair bit about that. But it is pretty clear to me that there's going to be some resistance on this simply because the service fee changes are so inexpensive, that profitability is going to drop so much that you know it's going to change the industry in a fair way. Brian, and

**Brian F. Tankersley, CPA.CITP, CGMA 09:32**

I will say that, that I've actually looked through the FRB services.org There's there's some stuff on the Federal Reserve Bank. So I actually have a I have a power query that does a web query on the page to get the updates. The current number of banks is 512. And I've actually gone through here but like if we look at if we look at Tennessee where I live, you know again, law Do these banks are headquartered out of state, but I will just say that if I look at this list first horizons not on here, truest isn't on their regions bank isn't on there, a US Bank is on there. But there are very few of the, you know, I'm just having trouble finding, finding big banks on here. Some of them are in there as clearing locations. But it's it realistically, the adoption seems to be favoring the small institutions as opposed to the large, just because of the impact, like Randy said is that this is going to have on their business models and their fee structures

**Randy Johnston 10:36**

go. And you know, another real clear reason for that Brian, is the core processors, the five servers that Jack Henry's, the FIS is actually having gotten their systems completed. And a lot of those big banks that you just called out are dependent on Big Core processors. So this will be a pretty interesting evolution as I would see it on fed now. But we wanted you to consider using fed now, as soon as reasonable for your firm's and to recommend to your businesses because of the payment advantages, where you can actually clear transactions will as Brian corrected me, within seconds, certainly same day right now, by the way, the clearing time seems to be about two

and a half hours. And it should be down below the minutes and over into the seconds

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nickel or even a penny, it just doesn't make sense to hang on to this legacy check thing. So I encourage you to check it to look at this and to start thinking about what the impacts are going to be on your business model. So that you can take advantage of the of this and spend less on your banker on a going forward basis.

**Randy Johnston 12:25**

Yep. And you will see it incorporated into products. Just like we've said that AI is getting incorporated into products fed now will get incorporated into products. And this could be a significant savings to your business based on the current discount rates that you're paying for credit card clearing, or for ACH fees. Well, we wanted you to be aware of this major breakthrough in technology and we appreciate you listening in on another accounting technology podcast.

**Brian F. Tankersley, CPA.CITP, CGMA 12:59**

Thank you for sharing your time with us. We'll be back next Saturday with a new episode of the technology lab, from CPA practice advisor. Have a great week.

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