July 27, 2026

Via Electronic Mail

Benjamin W. McDonough
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: **Proposed Revisions to the Federal Reserve Policy on Payment System Risk and the Guidelines for Account and Services Requests (Docket No. OP–1878); Notice of Proposed Rulemaking on Regulation D: Reserve Requirements of Depository Institutions (Docket No. R-1893 and RIN 7100-AH25); Notice of Proposed Rulemaking on Regulation A: Extensions of Credit by Federal Reserve Banks (Docket No. R-1892 and RIN 7100-AH24)**

Ladies and Gentlemen:

The Bank Policy Institute, The Clearing House Association, and the Financial Services Forum[1] ("Associations") appreciate the opportunity to comment on proposed revisions to the Federal Reserve Policy on Payment System Risk ("PSR Policy"),[2] the Federal Reserve Account Access Guidelines ("Guidelines"),[3] and Federal Reserve Regulations A[4] and D[5] to accommodate the provision by Federal Reserve Banks of special-purpose accounts that would clear and settle certain payment activity

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[1] Please see Annex A for a description of the Associations.

[2] Federal Reserve Policy on Payment System Risk (July 20, 2023), *available at* https://www.federalreserve.gov/paymentsystems/files/psr_policy.pdf.

[3] Guidelines for Evaluating Account and Services Requests, 87 Fed. Reg. 51099 (Aug. 19, 2022).

[4] 12 CFR Part 201.

[5] 12 CFR Part 204.

("Payment Accounts").[6] This letter responds to each of these three requests for comment and attaches and incorporates by reference the comment letter from the Associations submitted in response to the Federal Reserve's related December 2025 Request for Information and Comment ("Payment Account RFI") on a special-purpose account prototype.[7]

I. Executive Summary

This proposal represents a fundamental shift in Federal Reserve policy and, if adopted, would permit institutions subject to less rigorous supervision and regulation to access the payments system directly. Although the Associations support responsible innovation, the potential effects of this shift on the payments system, monetary policy implementation, and financial stability warrant commensurate safeguards and controls. The recommendations in this letter are intended to help ensure that any Payment Account framework the Federal Reserve adopts is transparent, consistently applied across Reserve Banks, and accompanied by risk mitigants commensurate with the credit, operational, illicit finance, monetary policy, and financial stability risks that Payment Account holders may pose.

We appreciate the Federal Reserve's efforts to engage in a comprehensive and deliberate process regarding Payment Accounts and support many of the controls and limitations contemplated by the proposal. We would highlight two particularly important controls proposed by the Federal Reserve that we would strongly recommend be retained in any implementation of the Payment Account framework:

- We strongly support the Board's proposed limitation on access by Payment Account holders to the FedACH Service. Allowing Payment Account holders, many of which may not be subject to federal prudential supervision, access to the FedACH Service and similar services would create unacceptable levels of risk to the Reserve Banks and the overall payments system.
- We also strongly support the Board's proposal to codify in Regulation D that Payment Accounts not receive interest. Paying interest to Payment Account holders could create significant risks to financial stability and effective monetary policy implementation.

This letter is organized as follows:

Section II recommends that the Federal Reserve consider the systemic impact of offering Payment Accounts on the payments system, monetary policy implementation, and financial stability.

- Within one year of finalizing the proposal, and every year thereafter, the Federal Reserve should conduct a comprehensive assessment of the aggregate systemic impact of Payment Accounts on the payments system, monetary policy implementation, and financial stability.

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[6] *See* Notice and Request for Comment on Proposed Revisions to the Federal Reserve Policy on Payment System Risk and the Guidelines for Account and Services Requests, 91 Fed. Reg. 30627 (May 26, 2026); Notice of Proposed Rulemaking on Regulation D: Reserve Requirements of Depository Institutions, 91 Fed. Reg. 30503 (May 26, 2026); Notice of Proposed Rulemaking on Regulation A: Extensions of Credit by Federal Reserve Banks, 91 Fed. Reg. 30498 (May 26, 2026).

[7] Bank Policy Institute, The Clearing House Association and Financial Services Forum, Comment on the Request for Information and Comment on Reserve Bank Payment Account Prototype (Feb. 6, 2026), *available at* https://www.federalreserve.gov/apps/proposals/comments/FR-2025-0083-01-C82 (attached as Annex B).

- The Federal Reserve should consider delaying the granting of Payment Accounts until the Federal Reserve's task force on balance sheet policy has completed its analysis.

Section III recommends that the Board ensure that the standards governing account access are transparent, rigorous and consistently applied across Reserve Banks.

- The Board should codify in regulation the proposed revisions to Parts II–IV of the PSR Policy and the Guidelines, such that the terms of account access apply consistently across the Reserve Banks and any future changes to the terms would be subject to notice and comment.
- We strongly support the Board's encouragement of the Reserve Banks to pause action on account requests from Tier 3 institutions until the Board has completed its policy development process with respect to Payment Accounts.

Section IV recommends that the Board should publicly provide its interpretation of legal eligibility for a Reserve Bank account.

- We reiterate our recommendations from our comment letter submitted in response to the Payment Account RFI that the Board propose for public comment its interpretation of which entities are legally eligible for Reserve Bank accounts and services.
- The Federal Reserve should also publicly disclose the specific legal authority relied upon whenever a Reserve Bank grants a new account or access to services.

Section V recommends that uninsured depository institutions not subject to federal supervision at both the institution and holding company level should be permitted to seek access only to Payment Accounts.

- The Board should continue to limit Master Account access to Tier 1 and certain Tier 2 institutions, and Tier 3 institutions should be able to seek access only to Payment Accounts, subject to the safeguards we recommend in Section VI.

Section VI emphasizes our support for the proposed limitations on Payment Accounts but recommends further safeguards. In particular, Section VI recommends that the Board adopt certain modifications to the proposed limitations and implement additional limitations, including:

- The Closing Balance Limit should be capped at $500 million, tailored to each Payment Account holder, and be reevaluated periodically. The Federal Reserve should also consider establishing daily maximum transaction limits.
- Payment Account holders should have access only to payments systems that provide final, irrevocable settlement and are subject to real-time monitoring. As discussed above, we strongly support the proposal that Payment Account holders not have access to the FedACH Service and other services that would create unacceptable levels of risk to the Reserve Banks and the overall payments system.
- As discussed above, interest should not be paid on balances in Payment Accounts.
- Payment Accounts should not be used to benefit third parties: Payment Account holders should not be permitted to act as sponsor banks for other parties.
- The Federal Reserve should ensure that Tier 3 applicants meet the same Bank Secrecy Act ("BSA") and anti-money laundering ("AML") and sanctions risk standards as insured

depository institutions ("IDIs") and are subject to appropriate risk-based controls to protect the payments system from illicit finance risk.

- Payment Account holders should be required to take additional steps to mitigate cyber and operational risk.
- Payment Account holders should be required to establish robust measures to enable their orderly resolution.

Section VII recommends that the Federal Reserve adopt additional safeguards to maximize transparency and help ensure Payment Account holders do not present risks to the financial system.

In addition, we reiterate the recommendations made in our response to the Payment Account RFI, attach that response hereto, and incorporate it by reference.

II. The Federal Reserve Must Consider the Systemic Impact of Offering Payment Accounts on the Payments System, Monetary Policy Implementation, and Financial Stability.

Access to Reserve Bank accounts enables institutions to clear and settle transactions on behalf of their customers on the central bank's balance sheet, without concern about liquidity and credit risk. Such access is designed to create a payments system that is efficient, safe, and stable. Each of these objectives is essential to a robust and thriving economy and helps to promote financial stability. Other benefits of account access may include reduced reliance on correspondent and settlement banks and lower operational and liquidity-management costs.

But robust eligibility standards geared to these objectives are essential because central bank account access can also pose considerable risk to individual Reserve Banks, to the U.S. payments system and its participants, and to financial stability and can have implications for the role of the Federal Reserve in the financial system. For example, Federal Reserve payment rails, particularly the Fedwire® Funds Service, are critical U.S. infrastructure: Fedwire supports the transfer of trillions of dollars per day, and its disruption could lead to significant long-term harm to the U.S. economy, markets, and commerce. To mitigate these risks, the Federal Reserve Act generally limits access to Reserve Bank accounts and services to depository institutions and provides the Federal Reserve with discretion to impose additional limitations. Accordingly, the Federal Reserve has generally provided account access only to institutions subject to the comprehensive and rigorous regulatory system provided by the Federal Deposit Insurance Act and related federal statutes.

Historically, and as reflected in the Guidelines, a key tenet of Federal Reserve policy regarding account access has been that account holders generally be federally insured and thereby subject to the full panoply of regulation and supervision that applies to IDIs.[8] Institutions that are not federally insured are subject to either intermediate or the strictest level of review for Reserve Bank master accounts ("Master Accounts") under the Guidelines and would therefore most likely seek the more streamlined review contemplated for Payment Accounts.

The history of deposit-taking by uninsured institutions in the United States and abroad has taught valuable and costly lessons about the financial stability and other risks posed by unregulated or

[8] Certain uninsured depository institutions, such as uninsured branches of foreign banking organizations, are subject to a similarly robust federal prudential framework.

insufficiently regulated deposit-taking and similar activity.[9] These lessons call for a comprehensive and deliberate evaluation of the aggregate effects that this proposal could have on consumers and the financial system by facilitating an increase in deposit-taking, or similar activity, such as stablecoin issuance,[10] by uninsured institutions.

Therefore, as we recommended in our response to the Payment Account RFI issued by the Board in December 2025,[11] the Federal Reserve should recognize that this proposal represents a fundamental shift in policy in favor of enabling a wide array of uninsured institutions to conduct payment activity directly through Reserve Bank accounts while engaging in activity that constitutes or largely resembles deposit-taking.

This shift would pose several related but distinct risks. First, it would allow uninsured institutions subject to less rigorous supervision and regulation to access directly the payments system, which could undermine the integrity of the payments system and pose risks to financial stability. Second, the shift would enable these more lightly regulated institutions to attract additional customers, thereby increasing the number of consumers exposed to the risks inherent to maintaining accounts at such institutions. These risks include the heightened potential for runs arising from uninsured deposit-taking and other deposit-like activities, such as stablecoin issuance, that are not subject to robust prudential supervision and regulation.[12] Third, the shift could have significant spillover effects on the broader economy. For example, if the proposed approach contributes to increased stablecoin issuance and adoption, stablecoins could displace deposits at IDIs. Such a shift could alter the liability structures, funding mix, liquidity risk profile, and cost of capital for IDIs, even if stablecoins are backed in part by deposits at IDIs. Over time, these effects could reduce the capacity of IDIs to provide credit to households and businesses, with adverse consequences for U.S. economic activity more broadly.[13,14] Finally, the shift could also increase illicit finance risk as less regulated (or unregulated) institutions

[9] For example, Congress established federal deposit insurance to achieve and maintain financial stability during the banking crises of the early 1930s. *See* FDIC, *A Brief History of Deposit Insurance in the United States*, at 25 (Sept. 1998), *available at* https://www.fdic.gov/bank/historical/brief/brhist.pdf.

[10] The GENIUS Act does not render permitted payment stablecoin issuers or any other entity eligible for access to Federal Reserve accounts and services.

[11] Bank Policy Institute, The Clearing House Association and Financial Services Forum, Comment on the Request for Information and Comment on Reserve Bank Payment Account Prototype (Feb. 6, 2026), *available at* https://www.federalreserve.gov/apps/proposals/comments/FR-2025-0083-01-C82; *see* Request for Information and Comment on Reserve Bank Payment Account Prototype, 90 Fed. Reg. 60096 (Dec. 23, 2025).

[12] *See, e.g.*, Cy Watsky et al., *Primary and Secondary Markets for Stablecoins*, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM (Feb. 23, 2024), *available at* https://www.federalreserve.gov/econres/notes/feds-notes/primary-and-secondary-markets-for-stablecoins-20240223.html.

[13] *See*, *e.g.*, Jessie Jiaxu Wang, *Banks in the Age of Stablecoins: Some Possible Implications for Deposits, Credit, and Financial Intermediation*, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM (Dec. 17, 2025), *available at* https://www.federalreserve.gov/econres/notes/feds-notes/banks-in-the-age-of-stablecoins-implications-for-deposits-credit-and-financial-intermediation-20251217.html.

[14] As noted in our Payment Account RFI response, we are also concerned that the Board's December 2025 policy statement on section 9(13) of the Federal Reserve Act will undermine financial stability by permitting uninsured state member banks to engage in a potentially wider range of activities than insured state member banks may conduct. *See* 12 C.F.R. § 208.112. The Federal Reserve should consider the combined effects of this policy statement and the Payment Account proposal.

become a haven for money laundering, terrorist and other illicit financing activity.[15] While IDIs are subject to comprehensive federal supervision and regulation designed to promote safety and soundness, financial integrity, and compliance with AML and countering the financing of terrorism ("CFT") requirements, many uninsured institutions are subject to materially different regulatory frameworks and supervisory expectations. To the extent the Payment Account proposal encourages activity to migrate toward such institutions, it could increase vulnerabilities that are relevant to the Federal Reserve's statutory responsibilities.

Payment Accounts also could have significant implications for monetary policy implementation. The introduction of these accounts could result in unpredictable changes to the level of, and volatility in, intraday demand for reserve balances and end-of-day reserve balances (notwithstanding Closing Balance Limits). These changes may have implications not only for the size of the Federal Reserve's balance sheet but also the options for monetary policy implementation. Specifically, the accounts will impart added volatility to end-of-day balances—volatility that will have to be understood and forecastable if the Federal Reserve chooses to implement monetary policy using a smaller balance sheet.[16] Research demonstrates that volatility in intraday credit contributes significantly to banks' demand for reserve balances, constraining the ability of the Federal Reserve to reduce the size of its balance sheet.[17] These changes would occur during a period when the Federal Reserve is reexamining its balance sheet policy, including the benefits and risks of the current ample-reserves regime and the composition of the Federal Reserve's balance sheet generally: the Federal Reserve recently announced the establishment of five task forces to examine areas central to the broad conduct of monetary policy,

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[15] *See* FinCEN and OFAC, Notice of Proposed Rulemaking on Permitted Payment Stablecoin Issuer Anti-Money Laundering/Countering the Financing of Terrorism Program and Sanctions Compliance Program Requirements, 91 Fed. Reg. 18582, 18585–89 (April 10, 2026) (describing the illicit finance risks associated with stablecoins).

[16] There is recent precedent for this phenomenon. Between 2008 and the present, the Federal Reserve has allowed the Treasury to increase the size of the Treasury General Account (the "TGA") from $5 billion to about $900 billion. That shift was made in steps for a number of reasons, but without consulting the Federal Open Market Committee and without expectation that the shift would interfere with the implementation of monetary policy. Nevertheless, the size and volatility of the TGA is now often cited by Federal Reserve staff as a reason why the FOMC cannot return to conducting monetary policy with a smaller balance sheet. For example, a recent paper by the president of the Federal Reserve Bank of Dallas Lorie Logan and senior vice president Sam Schulhofer-Wohl finds that "[f]luctuations in the TGA are a major source of the volatility in reserve supply that motivates the need for a buffer [of extra reserve balances]." Logan and Schulhofer-Wohl discuss several options for reducing the size and volatility of the TGA so that the Federal Reserve can shrink its balance sheet. *See* Lorie K. Logan & Sam Schulhofer-Wohl, *Options for Reducing the Size of the Fed's Balance Sheet*, Dall. Fed. Econ. (Apr. 2, 2026), *available at* https://www.dallasfed.org/research/economics/2026/0402. *See also* Bill Nelson, "How the Federal Reserve Got So Huge, and Why and How It Can Shrink," *Southern Economic Journal* 91, no. 4 (2025): 1287–1322, *available at* https://onlinelibrary.wiley.com/doi/10.1002/soej.12732 (describing how the TGA ended up so large, in particular how decisions did not factor in the risk that growth in the TGA would later inhibit the Federal Reserve's ability to shrink its balance sheet). The Federal Reserve's experience with the growth of the TGA therefore may provide lessons relevant to the introduction of Payment Accounts.

[17] Darrell Duffie, The Payment System Puts a Floor on the Fed's Balance Sheet (Brookings Papers on Econ. Activity, Spring 2026 Conference Draft), *available at* https://www.brookings.edu/wp-content/uploads/2026/03/3_Duffie_unembargoed.pdf.

including one devoted to "Balance Sheet Policy" that will examine "the costs, benefits, and institutional implications of the Federal Reserve's current balance sheet regime."[18]

In light of these potential risks, we recommend that the Federal Reserve conduct a comprehensive assessment of the aggregate systemic impact of Payment Accounts on the payments system, monetary policy implementation, and financial stability within one year of finalizing any Payment Account proposal and commit to reevaluating the aggregate systemic impact every other year thereafter. If, in the future, the Federal Reserve were to propose to ease any of the eligibility standards, requirements, or limitations contemplated by the current proposal, such an assessment would be even more essential. Should the Federal Reserve determine that the establishment of Payment Accounts creates undue risks to the payments system, the financial system, or financial stability, the Federal Reserve should take appropriate action to address such risks, including by reconsidering the availability of Payment Accounts to certain types of entities and/or proposing amendments to the terms on which such accounts are offered and maintained.[19] Further, the Federal Reserve should consider delaying the granting of Payment Accounts until the task force on balance sheet policy has conducted its analyses and the Federal Reserve has determined the appropriate path forward.

In addition to conducting periodic systemic-impact assessments, the Board should establish mechanisms to monitor the aggregate growth of Payment Accounts. Although the proposal appropriately includes institution-specific controls, including tailored Closing Balance Limits, those controls may not adequately address the aggregate risks posed by a growing number of Payment Account holders. Over time, individually tailored Payment Accounts could collectively represent a significant source of settlement activity, Federal Reserve liabilities, and payments system interconnections, particularly if a substantial number of uninsured institutions that are not subject to federal prudential supervision on a consolidated basis obtain such accounts.

Accordingly, the Board should also monitor and periodically publish aggregate information regarding Payment Account usage, including aggregate balances, transaction values and volumes, and concentration metrics. In addition to the biennial review of the aggregate systemic impact of Payment Accounts discussed above, the Board should establish quantitative and qualitative thresholds that would trigger off-cycle heightened review of the Payment Account program. If Payment Accounts, in the aggregate, begin to create material risks to the Federal Reserve's balance sheet, monetary policy implementation, bank funding markets, payments system resiliency, or financial stability, the Board should take appropriate action, including imposing additional safeguards, limiting future approvals, revising Payment Account terms, or reconsidering the availability of Payment Accounts to particular categories of institutions.

The argument is often made that wider access to Federal Reserve accounts and services would increase competition. But any perceived increase in competition from expanded access would be ephemeral, and not ultimately benefit consumers or the broader financial system, if it results from inappropriate advantages conferred by a less stringent—or nonexistent—form of regulation. Such a

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[18] Federal Reserve, "Chairman's Task Forces for Advancing Monetary Policy" (July 9, 2026), *available at* https://www.federalreserve.gov/monetarypolicy/task-forces.htm.

[19] *Cf. Banco San Juan Internacional, Inc. v. Fed. Rsrv. Bank of New York*, 762 F. Supp. 3d 247, 260 (S.D.N.Y. 2025), *aff'd*, 176 F.4th 163 (2d Cir. 2026) (noting that a subset of "high-risk account holders" agree to "enhanced risk-mitigation provisions").

system of regulatory arbitrage is unfair to those who submit to regulation by making them less competitive as a result of higher costs and constraints. Even more importantly, it would expose customers and the financial system to a race to the regulatory bottom and the risk of financial disruption and widespread loss.

III. The Board should ensure that the standards governing account access are transparent, rigorous, and consistently applied across Reserve Banks.

As noted, Federal Reserve account access confers significant benefits on account holders, but account holders may present considerable risks to the Federal Reserve System, to other participants in the payments system, and to financial stability, and such account access can have implications for the role of the Federal Reserve in the financial system. For this fundamental reason, as described in our response to the Payment Account RFI, the standards governing account access must be transparent, rigorous, and consistently applied across Reserve Banks.[20]

We support the Board's proposal to add a new Part IV to the PSR Policy that would include general terms that apply to both Master Accounts and Payment Accounts, including the proposed codification of the Federal Reserve's longstanding position that Reserve Banks do not recognize third-party interests in Master Accounts and correspondingly confirm that Reserve Banks would not recognize such interests in Payment Accounts. We also support the Board's proposal to include the standard set of risk-mitigating terms for Payment Accounts in the PSR Policy, including those that would be implemented through Regulations A and D, for completeness, consistency, and transparency.

After the Board has finalized the Payment Account framework, the Board should codify in regulation the updated Parts II-IV of the PSR Policy and the Guidelines. This will help ensure that the terms of Reserve Bank account access for both Master Accounts and Payment Accounts will be applied consistently across Reserve Banks. In addition, these components of the PSR Policy create binding legal obligations on non-governmental parties[21] and therefore, consistent with the Administrative Procedure Act and the Board's Statement Clarifying the Role of Supervisory Guidance, should be codified formally in regulation. Further, any proposed changes to the terms or process for granting Payment Accounts should be proposed for comment, just as the Board is requesting comment on this proposal. Codifying the framework in regulation would help ensure that changes would have to be proposed for public comment as a matter of law, in addition to as a matter of Board policy.

Through its oversight function over the Reserve Banks and in accordance with applicable law, the Board should exercise active oversight to help ensure that requests for Payment Accounts are reviewed against the same standards and that risk mitigants are applied consistently to Payment Accounts across Reserve Banks. Such a role for the Board would help avoid an uncoordinated approach among the Reserve Banks with respect to Payment Accounts, which might result in inconsistent precedent or encourage forum-shopping by institutions seeking a Payment Account.

[20] BPI, TCH, and the Financial Services Forum, comment letter of Feb. 6, 2026, *available at* https://bpi.com/wp-content/uploads/2026/02/Docket-No.-OP-1877-BPI-TCH-FSF-Response-to-FRB-Payment-Account-RFI-2-6-26.pdf.

[21] *See Nat'l Min. Ass'n v. McCarthy*, 758 F.3d 243, 251 (D.C. Cir. 2014) ("An agency action that purports to impose legally binding obligations or prohibitions on regulated parties . . . is a legislative rule.").

Finally, we appreciate the Board's encouragement of the Reserve Banks to pause decisions on account access requests from Tier 3 institutions until the Board has completed its policy development process on the Payment Account proposal. We strongly support this approach. Reserve Bank approval of account requests for Tier 3 institutions before the Board has finalized its policy framework for Payment Accounts would call into question whether the Reserve Banks are applying a consistent, transparent framework for reviewing these account requests.[22] As discussed further below, the Federal Reserve should adopt several reforms to ensure that this framework is made even more transparent and consistent.

IV. <u>The Board should publicly provide its interpretation of legal eligibility for a Reserve Bank account</u>.

As the Board confirmed in the Guidelines, each institution requesting access to Reserve Bank accounts or financial services must be eligible under the Federal Reserve Act or other federal statute to maintain an account and receive services.[23] Generally, only those entities that are member banks, U.S. branches and agencies of foreign banks, or otherwise "depository institutions" under section 19(b) of the Federal Reserve Act, are legally eligible to obtain Federal Reserve accounts or services.[24] Although the Board states in the proposal that "only institutions that are legally eligible to maintain accounts with a Reserve Bank would be eligible to maintain a Payment Account," to our knowledge, the Federal Reserve has not publicly defined which institutions are legally eligible to apply for Reserve Bank accounts and services under applicable law.[25]

As we have previously explained, it is difficult to assess whether Federal Reserve accounts of any type should be made available to "legally eligible" institutions in the absence of a clear understanding of which entities are eligible to obtain an account. Furthermore, the Board—not the Reserve Banks—has the legal authority to interpret the Federal Reserve Act, yet the Board has not defined what entities are eligible to apply for accounts, and the decisions on such applications are determined by individual Reserve Banks. Failing to articulate publicly the Board's assessment of what entities are eligible to apply for accounts and services undermines consistency in the account application process, effectively delegates statutory interpretation to the Reserve Banks, and may result in different interpretations of the Federal Reserve Act and legal eligibility across the Federal Reserve System. The Board should also publicly disclose the specific legal authority relied upon when a Reserve Bank grants a new account or access to services.

Clarifying which institutions are legally eligible for Reserve Bank accounts and services is particularly important because, as the Board has acknowledged in the Guidelines and in the proposal, the key assessment in any application is the risk profile and business model of the applicant, as well as the regulatory framework to which the applicant is subject, each of which may vary widely depending on the types of institutions the Board considers legally eligible to apply. The proposal states in the preamble that "[m]ost institutions that are legally eligible to maintain an account, including a Payment Account, with a Reserve Bank meet the definition of a 'bank' for purposes of the BSA and, as a result,

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[22] *See* Bank Policy Institute, *BPI Statement on Kraken Master Account* (March 4, 2026), *available at* https://bpi.com/bpi-statement-on-kraken-master-account/.

[23] *See* Guidelines for Evaluating Account and Services Requests, 87 Fed. Reg. at 51107.

[24] 12 U.S.C. §§ 342(b), 461(b). In addition, the Board may authorize a Reserve Bank to establish and maintain an account for, and provide services to, a designated financial market utility. 12 U.S.C. § 5465(a).

[25] *See* 12 U.S.C. § 461(b)(1)(i).

are required to maintain a comprehensive AML program that includes customer due diligence, transaction monitoring, and suspicious activity reporting," but explains in a footnote:

> If an institution requesting a Payment Account is not a "bank" under the BSA, a Reserve Bank should conduct a more extensive review of the institution's illicit finance risk. The Board is considering whether it would be appropriate to review access requests from institutions that do not meet the definition of a "bank" under the BSA under the full tiered review framework that applies to Master Account requests. These institutions may raise novel risks under the Account Access Guidelines, including but not limited to illicit finance risk.[26]

The Board has not provided sufficient information about which entities are considered eligible for account access, let alone which types of eligible entities do not meet the definition of "bank" under the BSA, to allow commenters to opine on the Board's proposal regarding those entities. We therefore reiterate our recommendation, as described in our prior comment letters, that the Board propose for comment its interpretation regarding which types of entities are eligible to obtain Federal Reserve accounts and services.[27] We also support the Board's proposal that Reserve Banks should subject such entities to heightened review because of the novel risks they present.[28]

V. <u>Uninsured depository institutions not subject to federal supervision at both the institution and holding company level should be permitted to seek access only to Payment Accounts</u>.

After the Board has proposed and finalized its legal interpretation of the entities that are "legally eligible" for Federal Reserve accounts, and assuming the entities identified in the Guidelines remain "legally eligible," as we recommended in our response to the Payment Account RFI, in all cases the Board should continue to limit access to a Master Account to entities that qualify under the current Guidelines as Tier 1 institutions—*i.e.*, institutions that are federally insured—or Tier 2 institutions.[29] In accordance with the Guidelines, the level of review that the Reserve Banks apply to requests for Master Accounts should continue to match the level of risk posed by institutions regardless of their tier

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[26] 91 Fed. Reg. at 30634, note 23.

[27] Joint Trades Comment Letter on Guidelines for Evaluating Account and Services Requests (April 22, 2022), *available at* https://www.federalreserve.gov/SECRS/2022/April/20220428/OP-1747/OP-1747_042222_141797_342973465962_1.pdf; Bank Policy Institute and Independent Community Bankers of America Comment Letter on Proposed Guidelines for Evaluating Account and Services Requests (July 12, 2021), *available at* https://bpi.com/wp-content/uploads/2021/07/BPI-ICBA-Comment-to-Fed-Accounts-Proposal-July-12-2021.pdf.

[28] To access the Bank of England's Real Time Gross Settlement ("RTGS") system, an eligible nonbank payment service provider must obtain a non-objection from the UK Financial Conduct Authority following a supervisory assessment. In addition, nonbank payment service providers with RTGS settlement accounts are "typically subject to on-going, enhanced supervision for an appropriate period to assess their continuing compliance with the regulatory requirements." Bank of England, *Access to UK payments systems for non-bank payment service providers* (April 8, 2025).

[29] The Guidelines define Tier 2 institutions as "eligible institutions that are not federally insured but are subject (by statute) to prudential supervision by a federal banking agency. In addition, (i) if such an institution is chartered under federal law, it has a holding company that is subject to Federal Reserve oversight (by statute or commitments); and (ii) if such an institution is chartered under state law and has a holding company, that holding company is subject to Federal Reserve oversight (by statute or commitments)." Guidelines for Evaluating Account and Services Requests, 87 Fed. Reg. at 51109–10.

designation.[30] If the Board proposes to make any change in the current approach to Master Account eligibility, the Board should issue a formal proposal and seek comment in view of the implications for the financial system.

Tier 3 institutions, because of the heightened risks they present as articulated under the Guidelines, should be able to seek access only to Payment Accounts.[31] Although the Board has proposed important limitations and safeguards that would apply to those accounts that are intended to address certain risks identified in the Guidelines, we recommend additional safeguards to help ensure that all the risks identified in the Guidelines are appropriately mitigated, as described below.

Limiting Tier 3 institutions to a Payment Account is appropriate because Tier 3 institutions are generally subject to a substantially weaker supervisory and regulatory framework than Tier 1 and Tier 2 institutions. Further, in combination with the risk-based approach articulated in the Guidelines, this distinction in eligibility would help ensure that the baseline for Master Account holders continues to be IDIs and eligible uninsured institutions subject to federal prudential supervision on a consolidated basis.[32]

A Payment Account should not be viewed as simply a step in the process of ultimately obtaining a Master Account or a "proving ground" where the holder "graduates" after some period to a Master Account. We note that the Guidelines already contemplate that Reserve Banks will apply the Guidelines to existing account holders where appropriate, such as when a Reserve Bank becomes aware of a

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[30] For example, industrial loan companies are federally insured and thus qualify as Tier 1 institutions under the Guidelines, but they also present heightened risk because they are generally not subject to the important financial stability protections established by the Bank Holding Company Act ("BHCA") or consolidated Federal Reserve oversight under the BHCA. *See* Federal Reserve Board General Counsel Scott Alvarez, Testimony before the Senate Banking Committee (Oct. 4, 2007), *available at* https://www.federalreserve.gov/newsevents/testimony/alvarez20071004a.htm. Industrial loan company account requests therefore should be subject to more rigorous scrutiny than requests from other Tier 1 institutions. Likewise, requests for Master Accounts by Tier 2 institutions that do not have demonstrated experience managing the risks presented by their business models and that are not subject to a supervisory framework that is substantially equivalent to that of a Tier 1 institution should also receive additional scrutiny from a Reserve Bank. By contrast, entities engaged in traditional trust activities within a bank holding company organization and U.S. branches or agencies of foreign banking organizations ought not to face more rigorous scrutiny relative to other institutions since they are subject to federal oversight and prudential requirements designed for their limited activities, and, unlike industrial loan companies, are also subject to restrictions on the commercial activities of their affiliates.

[31] The Guidelines define Tier 3 institutions as eligible "institutions that are not federally insured and are not considered in Tier 2" and specifically provides that "[n]on-federally-insured institutions that are chartered under federal law but do not have a holding company subject to Federal Reserve oversight would be considered in Tier 3," and "[n]on-federally-insured institutions that are chartered under state law and are not subject (by statute) to prudential supervision by a federal banking agency, or have a holding company that is not subject to Federal Reserve oversight, would be considered in Tier 3." *See* Guidelines for Evaluating Account and Services Requests, 87 Fed. Reg. at 51110.

[32] *See* Guidelines for Evaluating Account and Services Requests, 87 Fed. Reg. at 51100. The liabilities of IDIs to their deposit customers are protected by the full panoply of prudential standards and supervision that accompany federal deposit insurance. In addition, detailed regulatory and financial information about IDIs and eligible uninsured institutions that are subject to federal prudential supervision on a consolidated basis is readily available to Reserve Banks (as well as the public).

significant increase in the risks that an account holder presents due to, for example, changes in the nature of its principal business activities or financial condition. We support the Board's proposal that an application by a Payment Account holder for a Master Account requires full review under the Guidelines, including because the standard terms of Master Accounts do not have the same risk-mitigating limitations as those proposed for Payment Accounts. We also note—and agree with—the restriction in the proposal that an institution may have either a Payment Account or a Master Account, but not both.

VI. We generally support the proposed limitations on Payment Accounts but recommend further safeguards.

The Board has explained that the proposed account limitations that would apply to Payment Accounts are intended to address the risks identified in the Guidelines. We support these limitations and make recommendations below for additional limitations and safeguards to help ensure that all relevant risks are appropriately addressed.

a. Payment Accounts should be subject to appropriate overnight balance limits, and the Federal Reserve should consider establishing daily maximum transaction limits.

We support the proposed Payment Account term that would subject those accounts to a Closing Balance Limit that would be established by the relevant Reserve Bank. However, as described below, the limit should be capped at $500 million rather than $1 billion, and the Federal Reserve should periodically review this $500 million cap to ensure it is effectively calibrated to the specific circumstances of the holder, as discussed below. The proposal explains that the limit would be based on the Reserve Bank's analysis of the Payment Account holder's expected payment flows, in particular at the beginning of the Federal Reserve's business day, and take into consideration periods when external sources of liquidity may be limited, such as during weekends and holidays. The Payment Account holder would be required to meet its Closing Balance Limit by the Federal Reserve's close of business and maintain that balance until the open of the Federal Reserve's next business day.

Closing Balance Limits are important to help ensure the Federal Reserve can control the size of its balance sheet and effectively implement monetary policy.[33] As described above, the introduction of Payment Accounts could result in unpredictable changes to the level of, and volatility in, intraday demand for reserve balances and end-of-day reserve balances (notwithstanding Closing Balance Limits), which in turn may have implications for both the size of the Federal Reserve's balance sheet and its options for monetary policy implementation. This added volatility to end-of-day balances will have to be understood and forecastable if the Federal Reserve chooses to implement monetary policy using a smaller balance sheet.

Imposing Closing Balance Limits is also consistent with the purpose of a Payment Account to facilitate only payment, clearing, and settlement activity. Further, balance caps help ensure that Payment Account balances do not grow so large such that a single holder of a Payment Account—or all

[33] Such a cap would not be unique. The Bank of England restricts overnight balances for its "settlement accounts," which are unremunerated accounts available to eligible nonbank payment service providers that meet certain requirements, *see supra* note 28, and charges fees for breaching limits on those balances. Bank of England, *Access policy for RTGS settlement accounts and services* (April 2, 2025).

holders of Payment Accounts in the aggregate[34]—could have broader economic and financial stability implications by attracting deposits away from insured banks and credit unions that extend credit to consumers and businesses and dramatically expanding the size of the Federal Reserve's balance sheet.

We support the proposed tailoring of the Closing Balance Limit to each Payment Account holder, in addition to an absolute ceiling. In our Payment Account RFI response, we recommended that Reserve Banks should establish an overnight balance cap that would be calibrated based on a combination of the account holder's historical payment activity, both transaction value and volume, and reasonably expected near-term settlement needs.[35] We also recommended that, consistent with the Guidelines, the design of balance caps should consider the risks that each group of like Payment Account holders could pose, as described under the Guidelines.[36] Additionally, to promote consistent application across Reserve Banks, the Board should clearly set forth the methodology used to calibrate overnight balance caps.

The Closing Balance Limit should be capped at the Board's initial proposal of $500 million, rather than $1 billion. The Board explains that it based the proposed maximum size of the Closing Balance Limit of $1 billion on a "distributional analysis of closing balances data for existing Reserve Bank accounts over the past five years and found that $1 billion would be equal to or greater than approximately 97 percent of account closing balances over the review period."[37] This analysis is necessarily based on the closing balances of Master Account holders, virtually all of which are subject to comprehensive, robust federal supervision and do not present the same risks as the entities most likely to seek Payment Accounts—namely, uninsured depository institutions and other novel charters that are not subject to federal prudential supervision on a consolidated basis.

As proposed, the Board would allow minimally regulated institutions to hold systemically meaningful overnight balances without the corresponding safeguards applicable to most Master Account holders. Therefore, a lower limit of no more than $500 million, as the Board originally proposed, is warranted with respect to Payment Accounts. The Board's initial proposal of $500 million would help ensure the Federal Reserve can control the size of its balance sheet and that Payment Account balances do not grow so large as to have broader economic and financial stability implications by drawing deposits away from insured institutions. In any case, if the Board properly tailors the Closing Balance Limit to each Payment Account holder, the maximum size of the Closing Balance Limit, even if set at $500 million, should rarely be applicable. We also recommend that the Federal Reserve periodically reevaluate whether the maximum size of overnight balances is appropriately calibrated for payment activity by Payment Account holders—whether individually, acting in concert with other

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[34] Over time, the balances of all Payment Account holders could in the aggregate represent a significant Federal Reserve liability.

[35] Furthermore, we also recommended that the Reserve Banks have the right to reduce this cap in a timely manner in light of the risks posed by the capital and liquidity resources of the institution, monetary policy and financial stability considerations, and other risk-based factors.

[36] *See* Guidelines for Evaluating Account and Services Requests, 87 Fed. Reg. at 51108–09.

[37] 91 Fed. Reg. at 30640.

Payment Account holders[38] or in the aggregate—and that the Federal Reserve raise or lower this maximum size accordingly.

The proposal acknowledges that, in unusual circumstances, the Reserve Banks may temporarily permit an institution to exceed its individual Closing Balance Limit. The Board notes in the proposal that such requests "should be granted only rarely" and that a Reserve Bank would be "expected to consult with the Board if the requested temporary Closing Balance Limit exceeds $1 billion" or if a Reserve Bank "temporarily permitted a Payment Account's closing balance to be equal to or less than $1 billion (but, in excess of its Closing Balance Limit) for two consecutive Federal Reserve business days."[39]

We support the position that these requests should be granted only rarely and the proposed text of the PSR Policy that would require a Reserve Bank to consult with the Board before permitting such temporary breaches of these thresholds. In addition, as we previously recommended, the Board should provide greater transparency regarding the substance of and process for exceptions to the balance limits. First, to mitigate the risks associated with larger overnight balances, the Reserve Banks should be permitted to make ***upward*** adjustments up to the limit only temporarily—*e.g.*, no longer than a specified very short period, such as 24 or 48 hours—and only under specific circumstances, such as to address a temporary surge in payment volume due to special circumstances of limited duration. In no case should a Reserve Bank make upward adjustments for any Payment Account holder more than once per quarter unless there are extenuating circumstances. Second, a Payment Account holder seeking a permanent increase in its Closing Balance Limit (up to the cap) should be required to undergo a comprehensive risk management review by the relevant Reserve Bank, and the proposed increase in the limit should be made public, as should the institution's original balance limit and the Reserve Bank's reasoning for granting any such request to increase it. Third, the Board should articulate the standards for when and how a Reserve Bank may adjust the Closing Balance Limit, either temporarily or permanently, to ensure transparency and consistency across Reserve Banks for such adjustments. Finally, any such adjustments should be appropriate for the reasonably expected near-term settlement needs of the Payment Account holder, the risks posed by the capital and liquidity resources of the institution, financial stability considerations, and other risk-based factors.

Finally, the proposal does not contemplate that Payment Account balances would be capped during the business day because the "Board believes an intraday balance cap would limit a Payment Account's utility for clearing and settling payments, which is its intended purpose."[40] The Board should consider whether daily transaction volume and value limits that a Payment Account holder may not surpass without penalty would effectively mitigate risks to the Reserve Bank and other payments system participants.[41] Such limits could reduce the risk that a Payment Account holder processes transaction volumes that exceed its operational or liquidity capacity, in turn creating risks for Reserve Banks, other payments system participants, and the broader payments system. These limits could be set based upon

[38] The Federal Reserve should consider whether additional limits or restrictions should be applicable to Payment Account holders that are affiliated or acting in concert with each other. Such coordinated activity could pose correlation risk to the Reserve Banks and the broader financial system.

[39] *Id.*

[40] 91 Fed. Reg. at 30639.

[41] A penalty would enable the Reserve Banks to enforce appropriate daily transaction volume and value limits without rejecting payments, which could have other implications for the payments system, payments system participants, and end users.

the account holder's activities, characteristics, and risk profile and could curb the ability of a Payment Account holder—or a group of Payment Account holders—to become more systemically important to the U.S. payments system without being subject to the full suite of federal regulations and supervisory oversight applied to IDIs and their holding companies. If these limits are imposed, a Payment Account holder that wishes to process a higher volume and value of transactions on a permanent basis would have the option of requesting a Master Account and obtaining Reserve Bank approval to establish such an account, if eligible.

b. <u>Payment Account holders should have access only to payments systems that provide final, irrevocable settlement and are subject to real-time monitoring</u>.

To ensure that credit risk to Reserve Banks is mitigated, we support the principle set forth in the proposal that would provide a Payment Account holder with access only to Reserve Bank payments systems that provide final, irrevocable settlement and are subject to effective real-time monitoring such that transactions will be rejected if the account holder lacks sufficient funds in its Payment Account. The proposal identifies those payments systems that meet this requirement currently: the Fedwire Funds Service, the FedNow® Service, the NSS, and the Fedwire Securities Service for securities transfers free of payment.[42]

While we support the principle underlying the payment services to which Payment Account holders would have access, we reiterate that NSS presents distinct risks due to limited Reserve Bank visibility into the underlying private-sector activity being settled. Because the Reserve Banks do not participate in such private-sector activity, the Reserve Banks generally would not have ongoing insight into the nature of the activity that a Payment Account holder is using NSS to settle or the risk (*e.g.*, BSA/AML risk) posed by such activity—at least in the absence of transaction monitoring or ongoing diligence by the Reserve Banks of the account holder's activity. Moreover, as noted above, most Payment Account holders would not be subject to comprehensive, consolidated regulation and supervision by the Federal Reserve. The combination of this opacity and more limited regulation introduces BSA/AML and other risks. The Board therefore should require the Reserve Banks, before allowing a Payment Account holder to become a settler in an NSS arrangement, (i) to confirm that such access will be used for the express purpose of settling the institution's privately cleared payment activity as part of its participation in a clearinghouse or other clearing and settlement arrangement; (ii) to ensure that the Reserve Bank and the Payment Account holder adopt appropriate risk mitigants and controls (*e.g.*, ongoing transaction monitoring); and (iii) to account for the risks that such access may pose under each of the principles of the Guidelines, with a particular focus on impact to the overall payments system and financial stability (principles 3 and 4) and risks of facilitating illicit activity (principle 5).

[42] The Payment Account appears designed, at least in part, to boost participation in the FedNow Service. If the Payment Account is adopted, it should be accompanied by greater transparency about the FedNow Service, including pricing and plans to recoup costs as required by the Monetary Control Act. If the FedNow Service is subject to real-time monitoring, the Board should update the PSR Policy and its implementing guide accordingly. *See*, *e.g.*, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, FEDERAL RESERVE POLICY ON PAYMENT SYSTEM RISK § G.2 (July 20, 2023); BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, GUIDE TO THE FEDERAL RESERVE'S PAYMENT SYSTEM RISK POLICY ON INTRADAY CREDIT (July 20, 2023) § VI.A.2 n. 108 (noting that when an institution's account is monitored in real time, outgoing Fedwire Funds transfers and NSS transactions are rejected if such transactions exceed an institution's daylight overdraft cap).

The proposal also would provide Payment Account holders with access to the Fedwire Securities Service only for securities transfers free of payment. As we noted in our Payment Account RFI comment, given the Board's principle that a Payment Account would be established "for the express purpose of clearing and settling the institution's payments," it is not clear why a Payment Account holder would need access to the Fedwire Securities Service. The Fedwire Securities Service for transfers free of payment is generally used for collateral management, custody movements, and securities lending of U.S. government, federal agency, and government-sponsored enterprise securities, not for payment functions; in fact, the "free of payment" function by definition does not include the transfer of funds. The Board should not permit Payment Account holders to access this service without first publicly identifying specific payment-related functionality that the service would support.

We support the proposed limitation on Payment Account holders' access to other Reserve Bank payments systems, including Federal Reserve check services, FedCash services, and the FedACH Service. Access to such services would create unacceptable levels of risk to the Reserve Banks and the overall payments system, as the Board acknowledges. As the Board recognizes in the proposal, unlike payments systems such as the Fedwire Funds Service and the FedNow Service in which settlement of funds transfers is final and irrevocable, ACH items and checks are subject to long return windows.[43] For example, under Nacha rules, an ACH item still could cause an overdraft weeks or months later if it is returned and the account holder does not maintain sufficient funds to settle for the return.[44] There are many reasons that an ACH transaction could be returned (*e.g.*, insufficient funds, closed account, invalid account number) or reversed (*e.g.*, duplicate payment, incorrect amount, incorrect account). The same holds true for check services, because the Reserve Banks might receive returns or breach of warranty claims without having a positive balance in the Payment Account to charge. We agree with the Board's conclusion that there is not a "reasonable way to allow Payment Accounts to access FedACH and effectively mitigate credit risk to the Reserve Banks without disrupting the ACH network and potentially undermining its efficiency and effectiveness."[45]

The proposal notes: "The Reserve Banks may modify their systems' controls over time. If the Reserve Banks' systems' controls were to change, the Board might reconsider the suite of services to which Payment Accounts are given access. In the interim, institutions seeking access to additional services may request a Master Account."[46] Regardless of future changes to systems controls, the Federal Reserve should not provide Payment Accounts access to other services without subjecting the

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[43] Although FedCash services would not present the same credit risk, access to those services would not be appropriate for Payment Account holders because cash heightens the risk of BSA and AML violations, as cash is easier to use for illicit purposes since it is less traceable than electronic forms of payment.

[44] Even if the Federal Reserve could implement real-time monitoring for FedACH transactions, this monitoring could have negative effects for consumers and businesses using the service. For example, consumer bills might go unpaid if the monitor rejects the ACH debits originated to pay them.

[45] 91 Fed. Reg. at 30631 (citation omitted).

[46] 91 Fed. Reg. at 30631. We expect any effort to build real-time monitoring capability for FedACH transactions would be significant and costly given both the complexity of the FedACH service (*e.g.*, depository financial institutions ("DFIs") can send and receive both credit-push and debit-pull transactions) and the enormous volume of transactions it processes. If the Federal Reserve proposes to develop this capability, it should seek public comment consistent with longstanding Board policy regarding the pricing of Reserve Bank services. *See* BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, PRINCIPLES FOR THE PRICING OF FEDERAL RESERVE BANK SERVICES (last updated Nov. 20, 2008), https://www.federalreserve.gov/paymentsystems/pfs_principles.htm.

potential change to a full notice-and-comment process because the development of new controls is not necessarily sufficient to warrant inclusion of additional services within the suite of services to which Payment Accounts are given access. For example, complex payments systems like the FedACH Service require participating DFIs to have sufficient sophistication and expertise to manage the clearing and settlement of a high volume of ACH items, both credit and debit (unlike the credit-push-only functionality of the Fedwire Funds Service and FedNow Service). Allowing entities that are not subject to federal prudential supervision to access this payment service as a DFI and settle ACH activity in its own Reserve Bank account would significantly increase the risk to other DFIs, especially if the Reserve Bank refuses to handle a validly returned item due to its own credit risk. Only highly regulated financial institutions should be permitted to act as originating or receiving DFIs and settle ACH activity in their own Reserve Bank accounts.

Finally, to minimize credit risk to the Federal Reserve Banks, we support the Federal Reserve's proposal that Payment Accounts not have discount window access. This important safeguard is consistent with the condition that Payment Account holders have access only to those payment services that cannot result in an overdraft and thus cannot present credit risk to a Reserve Bank. To ensure this risk mitigant is applied consistently and durably over time, we support the Board's proposal to codify this condition in Regulation A.

c. Interest should not be paid on balances in Payment Accounts.

Consistent with the concept of granting an account for the express purpose of clearing and settling an institution's payment activity, the Federal Reserve has proposed that Payment Account holders not receive interest on balances in their accounts. This limitation is crucial to address risks to financial stability and financial intermediation—risks that the Federal Reserve has itself identified in a similar context[47] and explains further in the proposal.[48] The Federal Reserve is correct to acknowledge that prohibiting interest on balances in Payment Accounts is necessary to mitigate the risks that Payment Account holders would pose to the Reserve Banks, the payments system, and monetary policy implementation, as well as help ensure that the Federal Reserve will not have to expand its balance sheet significantly beyond what would otherwise be needed to efficiently and effectively implement monetary policy.[49] In addition, we agree with the Federal Reserve's reasoning that paying zero interest would help ensure that Payment Accounts are used for their express purpose—payments—and discourage the use of Payment Accounts as a revenue or investment vehicle.[50]

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[47] *See* Regulation D: Reserve Requirements of Depository Institutions, 84 Fed. Reg. 8829, 8830–31 (March 12, 2019).

[48] 91 Fed. Reg. at 30506 (noting, "Together, these two Payment Account terms— paying zero interest and the Closing Balance Limit—support the Board's goal of minimizing the direct effects of Payment Accounts on the Federal Reserve balance sheet to only what is needed for efficient and effective implementation of monetary policy."). For the same reason, we support the Board's proposal not to permit Payment Account holders to participate in excess balance accounts.

[49] *See* 91 Fed. Reg. at 30633, 30640.

[50] *See* 91 Fed. Reg. at 30506.

With respect to financial stability risk, the Federal Reserve has observed that reserve balances are attractive investments during times of financial stress.[51] Deposits at institutions with Payment Accounts could be seen as more attractive than alternative investments such as Treasury bills, particularly if those deposits earn interest at a rate that would not necessarily fall as demand surged. As a result, Payment Accounts could serve as magnets for flights to quality from investments such as commercial paper or short-term debt issued by nonfinancial firms, financial firms, and state and local governments, which could greatly amplify systemic stress. If the Reserve Banks were to pay interest on balances in Payment Accounts, Payment Accounts would be even more attractive during times of financial stress, and runs on investments in these other entities could become more frequent and more severe.

With respect to financial disintermediation, paying interest on balances in Payment Accounts—which, again, are likely to be held by uninsured entities engaged primarily in payments activities and not traditional deposit-taking and lending—could lead to fewer deposits being held at commercial banks. If deposits at institutions with Payment Accounts are seen as a more attractive investment than deposits at traditional deposit-taking banks and credit unions (because the former could now afford to pay a higher rate of interest), depositors would likely move some of their deposits to the former from the latter, even though many Payment Account holders would not be IDIs engaged in the business of taking deposits to make loans to consumers and businesses. This reduction in deposits could increase bank and credit union funding costs, which in turn could reduce the availability and raise the cost of credit for the real economy.[52]

Further, as noted above, paying interest on Payment Accounts would risk expanding the Federal Reserve's balance sheet beyond what is necessary to support account holder payment activity and would further expand the Federal Reserve's footprint in the financial system.[53] Paying interest on Payment Account deposits would increase demand for these accounts and balances held in them; because Payment Account deposits are a liability on the Federal Reserve's balance sheet, the Federal Reserve would have to purchase corresponding assets. Paying interest on these balances thus could ultimately introduce challenges and complexities in controlling the size of the Federal Reserve's balance sheet.

We agree with the Board's proposal to codify in Regulation D that Payment Accounts not receive interest. Consistent with section 11(k) of the Federal Reserve Act, the Board cannot delegate rate-setting—much less the decision to pay interest at all—to the Reserve Banks.[54] Regulation D should be revised to expressly prohibit Reserve Banks from paying interest on Payment Account balances.

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[51] *See, e.g.*, 84 Fed. Reg. at 8831 and 91 Fed. Reg. at 30506.

[52] *See*, *e.g.*, Wang, *Banks in the Age of Stablecoins: Some Possible Implications for Deposits, Credit, and Financial Intermediation* ("Empirical evidence confirms that funding shocks for banks generally translate into significant reductions in credit supply").

[53] Balance caps, even with the modifications we propose above, would not fully mitigate this risk, because payment of interest on balances would incentivize Payment Account holders to increase the size of their respective tailored balance caps and to maintain as high of a balance as possible up to their respective balance caps. Not paying interest on Payment Account balances is therefore a critical risk mitigant notwithstanding other risk mitigants proposed by the Board.

[54] 12 U.S.C. § 248(k).

d. Payment Accounts should not be used to benefit third parties.

To minimize risk to the payments system, we agree with the proposed limitation that would prohibit Payment Account holders from acting as a "Correspondent" as defined in the Reserve Banks' Operating Circular No. 1 ("OC 1") by permitting other legally eligible institutions to settle their transaction activity directly in the Payment Account or as a "Respondent," as defined in OC 1, by settling its transaction activity directly in another institution's Master Account.

We also recommend that the Board prohibit Payment Account holders from acting as correspondent banks such that they not be permitted to be sponsor banks (*e.g.*, for fintech companies, payment processors, or money services businesses). Sponsor banks must be subject to a full federal examination and the highest levels of supervision because their activities involve greater operational and technological complexity. A Payment Account holder should be limited to clearing and settling its own customer or direct proprietary payment flows, not providing these services to third parties. For the same reason, Payment Account holders should not be permitted to provide nested arrangements, which would introduce unacceptable levels of BSA/AML risk.[55]

In addition, we strongly support the proposed amendments to the PSR Policy that would state that Reserve Banks do not recognize third-party interests in Master Accounts and would not recognize them in Payment Accounts.[56] This limitation is a crucial risk-mitigation tool for the Reserve Banks for several reasons. First, only certain institution types are legally eligible for Reserve Bank accounts.[57] Recognizing the interest of customers of account holders in Reserve Bank accounts would contravene the longstanding statutory limitation on the provision of accounts by Reserve Banks. Second, requiring Reserve Banks to recognize third-party interests in Reserve Bank accounts could expose Reserve Banks to undue risk. In the event of the insolvency or failure of the account holder, the Reserve Bank could be in a position of being subject to the claims of myriad third parties with respect to the balance of the account and would have to keep records of those persons to determine to whom it owes the balance of the account, which would be a drain on Federal Reserve resources and could create significant uncertainty and confusion.

Similarly, the Reserve Banks should deny Payment Account applications from institutions that have been formed or are operated with the primary purpose of providing banking services to an affiliate, group of affiliates, or single unaffiliated party or group that would not itself be eligible or qualified for a Reserve Bank account. Absent this restriction, a Payment Account could effectively be used as a conduit that would both (i) expose the account holder to significant concentration risk with respect to that affiliate or third party and (ii) allow ineligible institutions to evade or circumvent legal eligibility requirements by establishing or utilizing an affiliate, or utilizing an unaffiliated third party, for access to a Reserve Bank account to be operated in substantial part for the ineligible institution's own

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[55] In a nested arrangement, a financial institution provides accounts and services to a fintech or other institution, which in turn processes activity for its own customers.

[56] As the Board notes, some institutions have requested accounts to hold funds in a trustee or fiduciary capacity, but such arrangements are not permissible as Reserve Banks do not maintain Master Accounts for the benefit of anyone other than the accountholders and, as such, do not recognize third-party interests in Master Accounts.

[57] *See* section IV, in which we request that the Board clarify publicly its interpretation of which entity types are legally eligible for Federal Reserve accounts and services.

benefit.[58] Given the longstanding and significant policy importance of separating banking and commerce, this restriction is particularly important with respect to affiliates and third parties that predominantly engage in commercial, rather than financial, activities.[59] Account holder payment volume and value on behalf of any single affiliate, group of affiliates, or third party or group of third parties therefore should be capped at no more than 10 percent of a Payment Account holder's total payment volume.[60]

These restrictions are also important because third-party payment processing carries significant BSA/AML, sanctions, compliance, and fraud risks. Any permitted use of a Payment Account that would benefit an affiliate, group of affiliates, or single unaffiliated party or group should therefore require the Payment Account holder to commit to heightened risk management standards, including compliance with third-party risk management and BSA/AML expectations and examinations at the same level of rigor applicable to IDIs.

e. The Federal Reserve should ensure that Tier 3 applicants meet the same BSA/AML and sanctions risk standards as IDIs and are subject to appropriate risk-based controls to protect the payments system from illicit finance risk.

In our Payment Account RFI response, we recommended that the Board should establish strict controls and oversight for Payment Accounts obtained by uninsured institutions to mitigate BSA/AML and economic sanctions risk consistent with those articulated in the Guidelines,[61] such as defining

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[58] A restriction of this nature would also be consistent with the limitations Congress has imposed on the use of Federal Reserve accounts by certain financial institutions for transactions on behalf of their affiliates. *See, e.g.*, 12 U.S.C. § 1841(c)(2)(H) (excepting an industrial loan company from the BHCA's definition of "bank" so long as it does not "permit[] any overdraft . . . , or incur[] any such overdraft in such institution's account at a Federal Reserve bank, on behalf of an affiliate"). *See also* S. Rep. 100-19, at 10 ("'The risks inherent in parent-affiliate relationships would,' as Chairman Volcker observed, 'be exacerbated by the financial formula likely to be followed by a commercial parent seeking access to the payments system through ownership of a nonbank bank: token capitalization of the bank relative to both the size of the parent and to the very high dollar volume of transactions [funneled] through the bank.'").

[59] Uninsured institutions requesting Payment Accounts are less likely to be "banks" as defined in the BHCA and thus could have affiliates that engage in commercial activities (unless they are otherwise subject to the BHCA).

[60] While we note above that this restriction is important in order to maintain the separation of banking and commerce, risks also could be posed if a Payment Account were used to provide services to third parties or affiliates that themselves conduct bank-like activities. For example, some fintechs that provide payment services may also have affiliates or third-party partners that extend credit or offer deposit-like money management accounts. If a lending or money management affiliate can also provide customers direct payments system access through an affiliate's or partner's Payment Account, then together the group may closely resemble a fully functional bank, but one without consolidated federal supervision or any one entity being subject to full bank-like prudential supervision. The Federal Reserve must carefully scrutinize not only the activities of the Payment Account applicant but also the combined activities of the applicant, its affiliates, and other business partners and give due consideration to the risks that could be presented by those activities in the aggregate.

[61] Indeed, as outlined in the Guidelines, Reserve Banks should confirm that Payment Account applicants have a BSA/AML compliance program consisting of the components set out below and in relevant regulations. These components include the following: (i) a system of internal controls, including policies and procedures, to ensure ongoing BSA/AML compliance; (ii) independent audit and testing of BSA/AML compliance to be conducted by bank personnel or an outside party; (iii) designation of one or more individuals responsible for coordinating and monitoring day-to-day compliance (*i.e.*, a BSA compliance officer); (iv) ongoing training for appropriate personnel,

minimum standards and monitoring expectations, including but not limited to customer due diligence, transaction monitoring, and reporting of suspicious activities obligations.[62] The Board should not contemplate granting Payment Accounts to any entity not considered a "bank" for the purposes of the BSA to avoid introducing entities with inconsistent BSA/AML obligations into the Federal Reserve system. However, if the Board seeks to do so, it should subject such entities to heightened review because of the novel risks they present.

We note that the need for appropriate BSA/AML and sanctions controls and oversight for Payment Account holders will become heightened if the Board finalizes its proposal to amend Regulation J to permit FedNow participants to use intermediaries, other than Reserve Banks, to send funds transfers through the FedNow Service. Each additional intermediary increases complexity, reduces uniform oversight, and creates another point in a funds transfer where BSA/AML and sanctions controls could be weaker or inconsistently applied. This proposal would support cross-border payment use cases by FedNow participants, and our comment letter on the FedNow proposal explains why FedNow participants may need to implement real-time sanctions screening of FedNow payment messages that facilitate cross-border transactions in order to comply with their sanctions obligations.[63]

Weak BSA/AML and sanctions risk practices endanger other financial institutions and the broader financial system: banks routinely process payments that originate from or pass through other financial institutions, and they depend on information from those other institutions to process the transactions. Therefore, if another institution has weak BSA/AML and sanctions controls, that risk is passed to the bank handling the transaction downstream.[64] Accordingly, it is crucial that applicants

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tailored to each individual's specific responsibilities; and (v) appropriate risk-based procedures for conducting ongoing customer due diligence, including procedures to understand the nature and purpose of customer relationships for the purpose of developing a customer risk profile and conducting ongoing monitoring to identify and report suspicious transactions and, on a risk basis, to maintain and update customer information. In addition, the Guidelines provide that the Reserve Bank should confirm that the institution has a sanctions compliance program designed to support its compliance with the Office of Foreign Assets Control ("OFAC") regulations and that an OFAC compliance program should identify higher-risk areas, provide for appropriate internal controls for screening and reporting, establish independent testing for compliance, designate a bank employee or employees as responsible for OFAC compliance, and create a training program for appropriate personnel in all relevant areas of the institution.

[62] With respect to eligible institutions that will seek to become permitted payment stablecoin issuers under the GENIUS Act, the U.S. Department of the Treasury and the federal banking agencies have various rulemaking obligations, including with respect to BSA/AML and sanctions compliance requirements. The finalization of such rules will take time, and, consistent with our recommendation that entities demonstrate at least a year of successful safe and sound operation before being permitted to apply for a Payment Account, their safe and sound operation must include compliance with BSA/AML and sanctions requirements. Therefore, as discussed below, these entities should not be understood to be eligible to apply for Payment Accounts until at least one year after commencing operation under the regulatory framework that is required to be established under the GENIUS Act.

[63] BPI and TCH, Comment Letter on Collection of Checks and Other Items by Federal Reserve Banks and Funds Transfers Through the Fedwire Funds Service and the FedNow Service; Regulation J (Docket No. R-1891, RIN 7100-AH23) (June 9, 2026), *available at* https://bpi.com/wp-content/uploads/2026/06/2026-06-09-BPI-TCH-comment-on-FedNow-Reg-J.pdf.

[64] For example, an applicant that is not held to the same BSA/AML and sanctions standards as an IDI could propagate violations throughout the banking system under OFAC's strict liability regime. If an institution with weaker controls fails to identify that a customer is owned or controlled by a sanctioned party and then originates a payment for that customer over the Federal Reserve's payment rails, downstream banks will receive and may

meet the same BSA/AML and sanctions risk standards as IDIs and be subject to appropriate risk-based controls to protect the payments system from illicit finance risk.

Establishing strong controls is important because the proposal would allow entities that may not be subject to comprehensive regulation or consistent oversight and that have not traditionally had direct access to a Federal Reserve account or services to obtain such direct access. Historically, the Reserve Banks have generally relied on IDIs and other federally regulated institutions to serve as correspondents for such entities. In providing payment services to these entities, such correspondents, which are subject to robust regulation and supervision, therefore historically interposed a layer of risk management on which the Reserve Banks could rely, including with respect to BSA/AML risk. Correspondent banks conduct due diligence and transaction monitoring for financial institutions for which they provide payment services.

We appreciate that the Federal Reserve recognizes in the proposal that "Payment Account requesters are more likely to be subject to weaker or more divergent supervisory regimes and are more likely to engage in new or emerging business lines" and therefore "could pose greater and more heterogenous risk than federally insured institutions" regarding BSA/AML and sanctions risk.[65] The Board is proposing to provide in the Payment Account terms a nonexhaustive list of terms available to a Reserve Bank, at its discretion, to mitigate illicit finance risk associated with the provision of a particular Payment Account. We appreciate the Board's recognition of the importance of robust BSA/AML and sanctions compliance risk management by Payment Account holders and the examples of potential risk-mitigating requirements the Reserve Banks could impose, at their discretion. These risks are real, as demonstrated by numerous authoritative analyses showing the preponderance of illicit financial activity involving digital assets and other new financial instruments, as well as entities that have not historically been subject to robust regulation or supervision for BSA/AML and sanctions compliance.[66]

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process the transaction in reliance on the incomplete information from the institution. Because of the strict liability regime that applies under OFAC rules, the receiving bank could face an enforcement action for processing a prohibited transaction even though it had no reason to suspect a violation and the underlying compliance failure originated entirely with the institution's inadequate controls.

[65] 91 Fed. Reg. 30639.

[66] *See* Patricia Kowsmann, *How Rogue Nations are Using Cryptocurrencies to Evade Sanctions*, W.S.J. (July 4, 2026), *available at* https://www.wsj.com/world/cryptocurrency-sanctions-evasion-d02b60f1; Chainalysis, *The 2026 Crypto Crime Report* (2026), *available at* https://www.chainalysis.com/reports/crypto-crime-2026/ (highlighting that illicit crypto volumes reached a record $154 billion and detailing how stablecoins—which accounted for roughly 84% of illicit transaction volume—have become the preferred settlement layer for underground finance, while nation-state actors and Chinese-language money-laundering networks industrialize cross-chain evasion); United Nations Office on Drugs and Crime, *Inflection Point: Global Implications of Scam Centres, Underground Banking and Illicit Online Marketplaces in Southeast Asia* (April 2025), *available at* https://www.unodc.org/roseap/uploads/documents/Publications/2025/Inflection_Point_2025.pdf (emphasizing that transnational organized crime syndicates now rely on underground banking, unregulated fintech, and illegal crypto mining to launder billions of dollars generated by cyber-enabled human trafficking and scam operations); Financial Action Task Force, *Targeted Report on Stablecoins and Unhosted Wallets* (March 2026), *available at* https://www.fatf-gafi.org/en/publications/Virtualassets/targeted-report-stablecoins-unhosted-wallets.html (illustrating how bad actors leverage peer-to-peer networks, DeFi protocols, and unhosted wallets to obscure the origins of illicit funds, bypassing traditional AML controls); U.S. Department of the Treasury, *Illicit Finance Risk Assessment of Decentralized Finance* (April 2023), *available at* https://home.treasury.gov/system/files/136/DeFi-Risk-Full-Review.pdf (concluding that ransomware groups, state-sponsored hackers (*e.g.*, from North Korea), and

However, given the national importance of an effective and consistent BSA/AML framework and sanctions compliance programs, the likely higher risk for illicit finance that Payment Account requesters would pose, and the elimination of IDI correspondents as a layer of risk management, we recommend requiring Payment Account holders to comply with the terms that the proposal currently gives Reserve Banks discretion to require. These requirements should include:

- Providing the Reserve Bank with an independent, third-party assessment of the Payment Account holder's BSA/AML and OFAC compliance programs that confirms they are satisfactory;
- Providing the Reserve Bank with an initial and thereafter annual attestation regarding the Payment Account holder's compliance with BSA/AML and OFAC laws and regulations;
- Providing the Reserve Bank with copies of annual audit reports of the Payment Account holder's BSA/AML and OFAC compliance programs;
- Meeting regularly with the Reserve Bank to discuss noteworthy or material BSA/AML and OFAC compliance issues;
- Notifying the Reserve Bank of any BSA/AML or OFAC enforcement action taken against the Payment Account holder by a regulatory or supervisory authority; and
- Notifying the Reserve Bank of any material deficiencies identified regarding the Payment Account holder's BSA/AML and OFAC compliance programs.[67]

Further, as we recommended previously, Payment Account holders also should be subject to examination and enforcement by a federal banking supervisor (or an independent third-party examiner approved by the Federal Reserve) for these matters[68]—or, absent such a supervisor, at a minimum Payment Account holders should be subject to continued monitoring and assessments for these matters by the Reserve Banks or an independent third-party examiner, which could report any findings to the institution's federal or state regulator for potential investigation and enforcement (*e.g.*, the IRS and state banking agency, as well as the Financial Crimes Enforcement Network or OFAC). In all situations, the Reserve Banks should assess the risk management systems of each institution requesting a Payment Account, including with respect to BSA/AML risk management, before granting its account request. In addition, Reserve Banks must be permitted to review Payment Account holders' other payment activity through their correspondent banks to help ensure effective, holistic BSA/AML monitoring across the full scope of each account holder's payment activities.

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scammers actively exploit noncompliant DeFi services to transfer and launder proceeds, exploiting legal and technological loopholes).

[67] *See* USA PATRIOT Act, P.L. 107-56 (Oct. 26, 2001), § 314(b), 115 Stat. 272, 308 (permitting financial institutions to share information with one another regarding individuals, entities, organizations, and countries suspected of possible terrorist or money laundering activities).

[68] Indeed, the Guidelines contemplate that an accountholder not otherwise subject to consolidated Federal Reserve oversight could become subject to this oversight by commitment; an accountholder not otherwise subject to BSA/AML examination by a federal banking agency could likewise become subject to such examination by commitment.

f. <u>Payment Account holders should be required to take additional steps to mitigate cyber and operational risk</u>.

The second principle in the Guidelines recognizes that providing "an account and services to an institution should not present or create undue credit, operational, settlement, cyber or other risks to the Reserve Bank."[69] The Guidelines require that an account holder have "an operational risk framework designed to ensure operational resiliency against events associated with processes, people, and systems that may impair the institution's use and settlement of Reserve Bank services" and identify minimum standards that an account holder's operational risk framework must meet.[70] The Guidelines also provide under this principle that an institution must "demonstrate an ability to comply, were it to obtain an account, with Board orders and policies, Reserve Bank agreements and operating circulars, and other applicable Federal Reserve requirements."[71] Similarly, the third principle recognizes that an account holder "should not present or create undue credit, liquidity, operational, settlement, cyber or other risks to the overall payments system," and likewise must have an "operational risk framework designed to ensure operational resiliency against events associated with processes, people, and systems that may impair the institution's payments system activities," and identifies minimum standards that such risk framework must meet.[72]

We agree that it is critically important that all account holders, including Payment Account holders, have robust cyber and operational risk management controls and processes in light of the risks they could pose to the Federal Reserve Banks, the payments system, and financial stability. This is especially true for Payment Account holders that are not subject to the same comprehensive regulatory framework or consistent supervisory oversight as IDIs.

The proposal also notes that "Reserve Banks mitigate cyber and operational risk through strong risk management controls and processes, including a security and resiliency assurance program that requires institutions to attest to their compliance with Reserve Bank security requirements," and states that "Payment Account holders would be subject to the same controls, processes, and attestation requirement."[73] The proposal provides further that under "the FedLine Solutions Security and Resiliency Assurance Program each organization, at least annually, must conduct a self-assessment of its compliance with the FedLine Security Requirements and attest to having conducted such self-assessment, as outlined in Appendix A, Section 3 of Operating Circular 5. These measures are intended to help protect against unauthorized access to FedLine services or transactional data."[74]

As we previously recommended, in light of the importance of cyber and operational risk management, the Board should require Payment Account holders to:

- Have robust enterprise and operational risk management programs, including third-party, operational resilience, and new product approvals;

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[69] 87 Fed. Reg. at 51107.

[70] *Id.* at 51108.

[71] *Id.* at 51107.

[72] *Id.* at 51108.

[73] 91 Fed. Reg. at 30638.

[74] 91 Fed. Reg. at 30638, note 53.

- Implement strong cybersecurity, information security, and data protection measures, including identity and access management, IT resilience, network security, and cloud security;
- Comply with minimum capital and liquidity requirements and establish effective liquidity management practices;
- Have internal fraud and negligence risk management programs;
- Attest on a regular basis that they are in compliance with Federal Reserve operating circulars governing electronic access and participation in each payment rail;[75]
- Enter into an agreement with their Reserve Bank (which would be standardized as to content across all Reserve Banks) containing the account parameters and limitations adopted for Payment Accounts, as well as any needed variations from provisions in operating circulars;
- Participate in system and operational testing and endpoint security activities;
- Maintain robust risk management, with business continuity and contingency plans to ensure that, in the event of failure, they can be wound down in an orderly manner without causing systemic disruption; and
- Obtain and submit to the Reserve Bank an initial, and thereafter biennial, independent third-party review of the holder's cybersecurity risks and practices.

In addition, before granting any Payment Accounts, the Federal Reserve should establish:

- Flexible, scalable risk-monitoring tools, including kill switches;
- Cyber and electronic access certification validation requirements;
- Scalability and capacity planning to ensure payments infrastructure can handle an increased number of participants and transaction volumes;
- 24/7 real-time monitoring of Payment Account balances;
- Effective liquidity management practices, including intraday liquidity monitoring and tools to block payments that would cause an overdraft;
- Robust testing requirements to ensure operational resiliency, including—if applicable to the institution—mandated participation in industry-wide exercises (*e.g.*, FedLine Advantage® file import/export and Protracted Outage exercises); and
- Protocols for timely communication with counterparties in the event of payments system disruptions or outages related to a Payment Account holder.

g. Payment Account holders should be required to establish robust measures to enable their orderly resolution.

The proposal appropriately recognizes the importance of operational resilience and orderly wind-down planning. However, because many Payment Account holders are likely to be uninsured

[75] Payment Account holders should be bound to the same operating circulars as Master Account holders with respect to their accounts and use of Reserve Bank financial services, including, but not limited to, Operating Circulars 1, 5, 6, and 8. We recommend that the Federal Reserve review its operating circulars and other account- and services-related guidance, agreements, and other materials for necessary updates to reflect the limitations and requirements applicable to Payment Accounts. These materials should be standardized and made transparent to the greatest extent possible to ensure consistent, appropriate risk mitigants are implemented across Reserve Banks.

institutions that are not subject to the same prudential supervisory and receivership frameworks that apply to federally insured depository institutions and certain other institutions subject to federal prudential supervision on a consolidated basis (*i.e.*, uninsured branches of foreign banking organizations), additional safeguards are warranted to address the risks arising from insolvency, receivership, bankruptcy, or other failure scenarios.

Accordingly, before receiving a Payment Account, an institution should be required to establish, and thereafter maintain, a tailored resolution-readiness plan appropriate to its size, complexity, business model, and applicable insolvency regime. Such a framework need not replicate the requirements applicable to large banking organizations or insured depository institutions, but it should provide the Reserve Bank with sufficient information to understand how the institution could fail, be wound down, or enter receivership without disrupting payments system operations or creating uncertainty regarding Payment Account balances and payment obligations. The adequacy and effectiveness of the resolution-readiness plan should be assessed by the Reserve Bank as part of the application process.

In addition, as part of the application process, applicants should provide legal analysis addressing the treatment of Payment Account balances and pending payment obligations under the insolvency, receivership, liquidation, or bankruptcy regime applicable to the institution. Such analysis should address, among other matters, the authority of any receiver, conservator, trustee, or similar official with respect to the Payment Account; the potential impact of insolvency proceedings on payment finality; and the treatment of customer-related funds and obligations. These requirements would help ensure that the failure of a Payment Account holder does not create uncertainty regarding the operation of Reserve Bank payment services, disrupt payments system activity, or impose unexpected legal or operational burdens on Reserve Banks.

VII. <u>The Federal Reserve should adopt additional safeguards to maximize transparency and help ensure Payment Account holders do not present risks to the financial system</u>.

In light of the fundamental policy shift described above and the potential effects on the financial and payments systems, we reiterate our recommendation that the Federal Reserve take a methodical, risk-based approach to considering whether to grant Payment Account access to institutions that are not federally insured and not otherwise subject to federal prudential oversight. Some applicants may be entities with which the Federal Reserve and other federal regulators have no or only limited experience, and some may plan to operate within a regulatory and supervisory regime that is itself still emerging and legally untested (*e.g.*, the regulatory regime governing payment stablecoin issuers under the GENIUS Act that has not yet been implemented; indeed, some of the required rulemakings have not even been proposed). Moreover, uninsured institutions that engage in deposit-taking, as well as activities that resemble deposit-taking, are more susceptible to runs, especially during times of stress,[76] and many entities with novel charters have not yet experienced a full business cycle.

For these reasons, to the extent that institutions are newly chartered or operating within a new regulatory regime (such as the regulatory regime for certain uninsured state banks), they should be

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[76] *See, e.g.,* NAT'L COMM'N ON THE CAUSES OF THE FIN. & ECON. CRISIS IN THE U.S., THE FINANCIAL CRISIS INQUIRY REPORT 356–60 (Jan. 2011), https://www.govinfo.gov/content/pkg/GPO-FCIC/pdf/GPO-FCIC.pdf (finding that a run on uninsured prime money market funds helped cause the Global Financial Crisis).

required to demonstrate to the Reserve Bank successful safe and sound operation for a minimum of 12 months before being permitted to apply for a Payment Account.[77]

Further, Payment Account requests should be published for public comment by the Reserve Banks and reflected in the Board's Account Access Database as Payment Account applicants. The database should be updated on a weekly basis (rather than quarterly) to ensure the public has adequate visibility into these requests.[78] Such transparency is critical because interested members of the public may have information that could bear on a Reserve Bank's consideration of a request for an account; such information may be particularly useful to the Reserve Bank with respect to relatively new institutions that have not undergone supervisory evaluation over a meaningful period. The Board should also publish weekly a list of entities that have obtained either a Master Account or Payment Account, the type of entity, the Tier in which the entity falls under the Guidelines, and any commitments or other agreements the entity entered in connection with the provision of the account. In addition, the Federal Reserve should publicly release a summary of how it analyzed the risks of any approved Payment Account request under the Guidelines, including any specific conditions or restrictions imposed and any commitments made by the applicant. This transparency is crucial for ensuring that Reserve Bank reviews of applicants are held to a robust and consistent standard and that conditions, restrictions, and commitments are consistently applied across the Federal Reserve System.

In addition, the proposal states that a Reserve Bank would generally be expected to complete its review of a request for a Payment Account within 90 calendar days of receiving all documentation requested by the Reserve Bank. The proposal provides that if a Reserve Bank requires additional time beyond the 90-day period to complete its review, the Reserve Bank would be expected to consult with the Board before extending the review period.

We reiterate our view that a longer period may be needed to ensure the Reserve Bank carefully considers the request and the risks that could be presented by the applicant, including through consideration of any public comments received. Requests for such accounts may come from institutions that have limited or no experience with federal prudential supervision and that are operating within a relatively new and untested regulatory and receivership regime (*e.g.*, certain institutions with state uninsured bank charters). The proposed Payment Account terms designed to reduce risks cannot fully compensate for insufficient prudential supervision and, for newly established institutions, a limited supervisory record and operating history (both in terms of financial performance and compliance and risk management efficacy). It is therefore probable that a Reserve Bank will need more than 90 days to complete what is likely to be a complex analysis.

For these reasons, we recommend that Reserve Banks have a minimum of 180 days after receiving all requested documentation to complete a review of a Payment Account request. An even longer period may be warranted where, for example, (i) the Reserve Banks have not yet fully evaluated the collective risks to financial stability posed by "a group of like institutions," as required by the

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[77] The Reserve Banks may wish to consider applying a similar standard to institutions that apply for Master Accounts, depending on the risks posed by the institutions.

[78] We had previously recommended that Master Account applications from Tier 2 and Tier 3 institutions be published for notice and comment for similar reasons. To the extent that such institutions continue to be permitted to apply for Master Accounts, we reiterate that recommendation. We also note that weekly publication would be consistent with other Federal Reserve practices, such as the weekly publication of the H.2 release.

Guidelines; or (ii) the eligible institution would operate within an emerging or very new regulatory regime (such as the regime applicable to payment stablecoin issuers), as it may not be feasible to evaluate comprehensively how effective the regulatory regime applicable to such an entity is in addressing the risks such entities pose or the entity's own safe and sound operation within that regime within a shorter period. In addition, the Board should clarify that the streamlined review of applications for Payment Accounts does not equate to a substantively less rigorous review.

Furthermore, if an institution is granted access to a Payment Account, the account holder should be subject to a one-year trial period during which it is subject to enhanced oversight by the appropriate Reserve Bank.[79] Moreover, given the significant risks described throughout this letter and the need for corresponding controls, no holder of a Payment Account should be permitted to obtain a Master Account unless the institution (i) becomes an IDI or otherwise meets the Master Account eligibility criteria proposed above; and (ii) undergoes a comprehensive evaluation by the relevant Reserve Bank under the Guidelines for a Master Account (as opposed to a Payment Account). The Board recognizes this requirement in the proposal, confirming that a "request for a Master Account by a Payment Account holder would require a full review under the Account Access Guidelines."[80]

VIII. <u>Conclusion</u>

The question of which institutions should be permitted to open accounts with a Reserve Bank, whether a Master Account or a Payment Account, or obtain Reserve Bank services remains critically important in light of the risks that such accounts or services can present to the Reserve Banks, other payments system participants, and U.S. payment and financial systems. Because certain types of eligible institutions, such as uninsured depository institutions that are not subject to federal supervision at either the institution or holding company level, have not traditionally had direct access to Reserve Bank accounts or services and may present heightened risks, the Federal Reserve should proceed methodically and cautiously in considering whether such entities should have access to any type of Reserve Bank account, including a Payment Account. The Federal Reserve should ensure that any entity granted access to a Payment Account abides by the risk mitigants set forth in the proposal as well as the additional risk mitigants we have outlined in this letter.

Implementing these requirements is essential to help mitigate the risks presented by providing Payment Accounts to institutions that have not traditionally had such access because they lack comprehensive, consolidated supervision. In addition, the Board should ensure that requests are evaluated consistently and subject to the same risk controls across Reserve Banks and provide transparency into the application, review, and approval process, as recommended throughout this letter. The Associations are supportive of private-sector innovation in financial services. But when that innovation implicates broader issues of financial stability, national security and credit availability, the public interest must appropriately be taken into account.

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[79] This trial period would be in addition to the risk controls discussed in section VI. Enhanced oversight may include, for example, periodic *ex post* reviews of a Payment Account holder's transaction activity for undue risk by the appropriate Reserve Bank. As with any account, the Reserve Bank should have discretion to lower the balance limit and/or suspend or close an account in specific cases if the Payment Account holder or the activity processed through the Payment Account poses undue risk under the Guidelines, including risk from BSA/AML or sanctions violations, risk to the Reserve Banks, payments system risk, monetary policy risk, or financial stability risk.

[80] 91 Fed. Reg. at 30635.

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The Associations appreciate the opportunity to comment on the proposal and would welcome the opportunity to discuss our comments further with you. If you have any questions, please contact Paige Paridon at Paige.paridon@bpi.com, Rodney Abele at Rodney.abele@theclearinghouse.org, or Patricia Yeh at Pyeh@fsforum.com.

Respectfully Submitted,

/s/

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/s/

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/s/

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cc: Mark Van Der Weide
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Annex A

Bank Policy Institute: The Bank Policy Institute is a nonpartisan public policy, research and advocacy group that represents universal banks, regional banks, and the major foreign banks doing business in the United States. BPI produces academic research and analysis on regulatory and monetary policy topics, analyzes and comments on proposed regulations, and represents the financial services industry with respect to cybersecurity, fraud, and other information security issues.

The Clearing House Association L.L.C.: The Clearing House Association L.L.C., the country's oldest banking trade association, is a nonpartisan organization that provides informed advocacy and thought leadership on critical payments-related issues. Its sister company, The Clearing House Payments Company L.L.C., owns and operates core payments system infrastructure in the United States, clearing and settling more than $2 trillion every business day.

The Financial Services Forum: The Financial Services Forum is an economic policy and advocacy organization whose members are the eight largest and most diversified financial institutions headquartered in the United States. Forum member institutions are a leading source of lending and investment in the United States and serve millions of consumers, businesses, investors and communities throughout the country. The Forum promotes policies that support savings and investment, deep and liquid capital markets, a competitive global marketplace and a sound financial system.

Annex B

Letter of the Bank Policy Institute, the Clearing House Association and the Financial Services Forum, dated February 6, 2026, to the Board

February 6, 2026

Via Electronic Mail

Benjamin W. McDonough
Deputy Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: **Request for Information and Comment on Reserve Bank Payment Account Prototype (Docket No. OP–1877)**

Ladies and Gentlemen:

The Bank Policy Institute, The Clearing House Association, and the Financial Services Forum[1] ("Associations") appreciate the opportunity to comment on the Request for Information and Comment ("RFI") on a special-purpose Federal Reserve Bank account prototype (a "Payment Account") issued by the Board of Governors of the Federal Reserve System ("Board").[2] According to the RFI, such Payment Accounts would be tailored to the risks and needs of legally eligible institutions focused on payments innovation.[3]

Access to Reserve Bank accounts enables eligible institutions to clear and settle transactions on behalf of their customers on the central bank's balance sheet without concern about liquidity and credit risk. Such access is designed to ensure that the payment system is efficient, safe, and stable, which is essential to a robust and thriving economy and helps to promote financial stability. But central bank account access can also pose considerable risk to individual Reserve Banks, to the U.S. payments system and its participants, and to financial stability and can have implications for the role of the Federal Reserve in the financial system. To mitigate this risk, the Federal Reserve has, since the origin of the Federal Reserve System, conditioned account access on the application of a comprehensive and rigorous regulatory system to Reserve Bank account holders. For this fundamental reason, the standards governing account access must continue to be transparent, rigorous, and consistently applied across Reserve Banks.

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[1] Please see Appendix A for a description of the Associations.

[2] *See* Request for Information and Comment on Reserve Bank Payment Account Prototype, 90 Fed. Reg. 60096 (Dec. 23, 2025).

[3] *See id.* at 60096.

I. **<u>The Federal Reserve Must Consider the Systemic Impact on the Payment System and Financial Stability of Offering Payment Accounts</u>.**

While we recommend additional safeguards the Federal Reserve should adopt if it moves forward in establishing Payment Accounts, we first note that, in addition to the risks that any individual institution may pose, changes to Federal Reserve policy on account access must be assessed in the aggregate for their systemic impact on the payment system and financial stability. Historically, and as reflected in the Board's Guidelines for Evaluating Account and Services Requests ("Guidelines"),[4] a key tenet of Federal Reserve policy regarding account access has been that account holders generally be federally insured and thereby subject to the full panoply of regulation and supervision that applies to insured depository institutions ("IDIs"). Institutions that are not federally insured face either intermediate or the strictest level of review for Reserve Bank master accounts ("Master Accounts") under the Guidelines and would therefore most likely be attracted to the more streamlined review contemplated for Payment Accounts.

Therefore, it is imperative that the Federal Reserve recognize that this proposal represents a fundamental shift in policy in favor of enabling an increased number of uninsured institutions in the United States to conduct payment activity directly through Reserve Bank accounts while engaging in activity that constitutes or, in many ways, resembles deposit-taking. For example, certain states offer charters that permit uninsured deposit-taking; in addition, other activities that resemble deposit-taking, such as stablecoin issuance, may carry significant run risk.[5] By providing a more streamlined avenue for these institutions to obtain account access—which, as described throughout this letter, provides significant benefits to such account holders—these uninsured institutions may be able to increase their customer base, which would in turn increase the number of consumer accounts at uninsured institutions. The Federal Reserve must carefully consider the implications for payment and financial system safety and soundness that could result from this potential shift to benefit uninsured institutions before implementing this framework to establish Payment Accounts.[6]

The security of individual depositors and the resilience of the financial system benefit greatly when depository institutions have federal deposit insurance. The creation of federal deposit insurance in 1933 was the signature legislative and regulatory policy response to the mass withdrawal of funds from financial institutions during the Great Depression. It was designed to restore depositor confidence after nearly 9,000 institutions were forced to suspend operations as a result of bank runs. Given that experience, the Federal Deposit Insurance Corporation ("FDIC") was vested with unique powers,

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[4] *See* Guidelines for Evaluating Account and Services Requests, 87 Fed. Reg. 51099 (Aug. 19, 2022).

[5] Indeed, even if stablecoins are backed to some extent by deposits at IDIs, stablecoin adoption could displace IDI deposits and alter the liability structures, funding mix, liquidity risk profile, and cost of capital for IDIs, with potentially negative consequences for credit provision by IDIs across the U.S. economy. *See*, *e.g.*, Jessie Jiaxu Wang, *Banks in the Age of Stablecoins: Some Possible Implications for Deposits, Credit, and Financial Intermediation*, Board of Governors of the Federal Reserve System (Dec. 17, 2025), https://www.federalreserve.gov/econres/notes/feds-notes/banks-in-the-age-of-stablecoins-implications-for-deposits-credit-and-financial-intermediation-20251217.html.

[6] We are similarly concerned that the Board's new policy statement on section 9(13) of the Federal Reserve Act will undermine financial stability by permitting uninsured state member banks to engage in a potentially wider range of activities than insured state member banks may conduct. The Federal Reserve should consider the effects of this policy statement and the Payment Account proposal in the aggregate.

including to grant deposit insurance and enable the orderly resolution of troubled depository institutions. Importantly, insured institutions are also subject to robust prudential requirements and ongoing supervision.

As we discuss further below, the risk-mitigating features described in the prototype Payment Account primarily address credit risk to the Reserve Banks, but the proposal lacks the necessary provisions that would replicate the run-risk protections of federal deposit insurance, the systemic risk protections of an FDIC resolution regime, or the prudential framework to safeguard insured institutions. We appreciate the transparency with which the Federal Reserve has approached this RFI, but we believe the history of deposit-taking by uninsured institutions in the United States and abroad has taught us valuable lessons about the financial stability and other risks posed by this activity. These lessons call for a more comprehensive and deliberate evaluation of the aggregate effects that this proposal could have on consumers and the financial system by encouraging an increase in deposit-taking or its equivalent by uninsured institutions.

II. **The Reserve Banks Should Continue to Evaluate Requests under the Guidelines.**

The security and resilience of payment system participants are critical to the safety and effectiveness of the U.S. payments system and economy. The United States' payment system is based on the core principles of trust, security, and resiliency. This foundation instills confidence and stability in the system. We support innovation in the payment ecosystem that consistently upholds these principles and appropriately limits systemic and operational risks. Federally supervised and insured financial institutions have been instrumental in embodying these principles through long-term investments and expertise in client due diligence, liquidity management, technology infrastructure, and risk controls.

The recent increase in the availability of so-called novel charters[7] to entities at both the federal and state level—some of which have sought access to Reserve Bank Master Accounts and financial services—has raised questions about whether the Federal Reserve's standards for such access should be relaxed. However, the absence of a comprehensive federal bank regulatory and supervisory regime for these institutions can create heightened risks for the U.S. payment and financial systems that could undermine confidence in and destabilize those systems.

As the Board has articulated in the Guidelines, each institution requesting access to Reserve Bank accounts or financial services must be eligible under the Federal Reserve Act or other federal statute to maintain an account and receive services.[8] Generally, only those entities that are member banks or are "depository institutions" under section 19(b) of the Federal Reserve Act are legally eligible to obtain Federal Reserve accounts or services. Eligibility, however, is a necessary but not sufficient basis for obtaining a Reserve Bank account or services. The Federal Reserve has consistently maintained that Reserve Banks retain discretion to grant accounts to eligible institutions based on risk, which has

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[7] We use the term "novel charters" to describe entities that are not (i) IDIs or insured credit unions subject to oversight by a federal prudential supervisor; (ii) uninsured institutions that are part of a bank holding company (for example, an uninsured national trust bank that is a subsidiary of a bank holding company), and thus subject to consolidated prudential oversight by the Board; or (iii) U.S. branches or agencies of foreign banks.

[8] *See* Guidelines for Evaluating Account and Services Requests, 87 Fed. Reg. at 51107.

been upheld by the courts.[9] The Board has indicated that Reserve Banks will have this same discretion in considering applications by eligible institutions for Payment Accounts.[10]

The Guidelines correctly recognize that certain types of eligible institutions that may request a Reserve Bank account—such as uninsured depository institutions that are not subject to federal supervision at both the institution and, if it exists, the holding company level—have not traditionally had access to Reserve Bank accounts or services and may present different levels of risk. For example, such an institution may present heightened (i) credit risk to the Reserve Bank if it overdraws its account; (ii) settlement risk to counterparties and customers if it is unable to process transactions due to operational failures; (iii) financial stability risk if the institution uses its account to draw deposits away from commercial banks, which would increase the cost of credit and impair financial intermediation; and (iv) Bank Secrecy Act ("BSA")/anti-money laundering ("AML") risk if the institution uses its account to process transactions that support illicit activity.

To ensure these risks are addressed for entities seeking Reserve Bank accounts or access to Federal Reserve services, the Board has articulated several key principles that should govern a Reserve Bank's consideration of account or services requests. In particular, the Guidelines provide that the provision of an account or services to an institution should not:

1. Present or create undue credit, operational, settlement, cyber or other risks to the Reserve Bank;
2. Present or create undue credit, liquidity, operational, settlement, cyber, or other risks to the overall payment system;
3. Create undue risk to the stability of the U.S. financial system;
4. Create undue risk to the overall economy by facilitating activities such as money laundering, terrorism financing, fraud, cybercrimes, economic or trade sanctions violations, or other illicit activity; or
5. Adversely affect the Federal Reserve's ability to implement monetary policy.

The RFI explains that, because in recent years many eligible uninsured institutions have requested or expressed interest in Master Accounts, "the Board is exploring whether a tailored, special purpose Payment Account could meet these institutions' needs while mitigating material risks identified in the Guidelines."[11] We support the continued application of the Guidelines in evaluating all account or service requests, whether for a Master Account or a Payment Account.

Further, given the risks noted above, any changes to the Guidelines to address Reserve Bank evaluation of Payment Account requests should be issued for public comment, just as the Board published the Guidelines for comment when they were introduced. Incorporating Payment Account concepts into the Guidelines also would provide institutions requesting this account with clarity on how

[9] *See* Custodia Bank, Inc. v. Federal Reserve Board of Governors, 157 F.4th 1235 (10th Cir. 2025), *reh'g en banc petition filed*; Banco San Juan Internacional, Inc. v. Fed. Rsrv. Bank of N.Y., 762 F. Supp. 3d 247 (S.D.N.Y. 2025), *appeal filed*; and PayServices Bank v. Fed. Reserve Bank of San Francisco, No. 1:23-cv-00305-REP, 2024 WL 1347094 (D. Idaho Mar. 30, 2024), *appeal filed*.

[10] *See* Request for Information and Comment on Reserve Bank Payment Account Prototype, 90 Fed. Reg. at 60097–99.

[11] Request for Information and Comment on Reserve Bank Payment Account Prototype, 90 Fed. Reg. at 60097.

future requests would be evaluated. We also recommend below that key features of the Payment Account with respect to the discount window and interest on account balances be codified in regulation, where appropriate, to ensure consistent, durable application of these safeguards over time and across the Federal Reserve System.

III. **Uninsured depository institutions not subject to federal supervision at both the institution and holding company level should be permitted to seek access only to Payment Accounts**.

Consistent with the concerns the Board has articulated regarding uninsured institutions not subject to federal supervision, we believe that the Board should limit access to a Master Account to only entities that qualify under the current Guidelines as Tier 1 institutions—i.e., institutions that are federally insured—or Tier 2 institutions.[12] In accordance with the Guidelines, the level of review that the Reserve Banks apply to requests for Master Accounts should continue to match the level of risk posed by institutions, regardless of their tier designation. For example, industrial loan companies are federally insured and thus qualify as Tier 1 institutions under the Guidelines, but they also present heightened risk under the Guidelines because they are generally not subject to the important financial stability protections established by the Bank Holding Company Act ("BHCA") or consolidated Federal Reserve oversight that comes with applicability of the BHCA.[13] Requests for Master Accounts by Tier 2 institutions that do not have demonstrated experience managing the risks presented by their business models and that are not subject to a supervisory framework that is substantially equivalent to that of a Tier 1 institution should also receive additional scrutiny from a Reserve Bank.[14]

Tier 3 institutions, because of the heightened risks they present as articulated under the Guidelines, should only be able to seek access to a Payment Account.[15] Although the Board has proposed important limitations and safeguards that would apply to those accounts that are intended to address certain risks identified in the Guidelines, we make recommendations regarding additional

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[12] The Guidelines define Tier 2 institutions as "eligible institutions that are not federally insured but are subject (by statute) to prudential supervision by a federal banking agency. In addition, (i) if such an institution is chartered under federal law, it has a holding company that is subject to Federal Reserve oversight (by statute or commitments); and (ii) if such an institution is chartered under state law and has a holding company, that holding company is subject to Federal Reserve oversight (by statute or commitments)." *See* Guidelines for Evaluating Account and Services Requests, 87 Fed. Reg. at 51109-51110.

[13] *See* Federal Reserve Board General Counsel Scott Alvarez, Testimony before the Senate Banking Committee (Oct. 4, 2007), https://www.federalreserve.gov/newsevents/testimony/alvarez20071004a.htm. Industrial loan company account requests therefore should be subject to more rigorous scrutiny than requests from other Tier 1 institutions.

[14] This category should not include entities engaged in traditional trust activities within a bank holding company organization and U.S. branches or agencies of foreign banking organizations.

[15] The Guidelines define Tier 3 institutions as eligible "institutions that are not federally insured and are not considered in Tier 2" and specifically provides that "[n]on-federally-insured institutions that are chartered under federal law but do not have a holding company subject to Federal Reserve oversight would be considered in Tier 3," and "[n]on-federally-insured institutions that are chartered under state law and are not subject (by statute) to prudential supervision by a federal banking agency, or have a holding company that is not subject to Federal Reserve oversight, would be considered in Tier 3." *See* Guidelines for Evaluating Account and Services Requests, 87 Fed. Reg. at 51110.

safeguards to help ensure that all the risks identified in the Guidelines are appropriately mitigated, as described below.

This tailored approach is appropriate because those institutions that should be permitted to apply for a Master Account generally are subject to a materially more robust federal regulatory and supervisory framework when compared to other legally eligible institutions. Further, in combination with the risk-based approach articulated in the Guidelines for Master Account requests, this distinction in eligibility would help ensure that the baseline for Master Account holders continues to be IDIs, which is appropriate because (i) the liabilities of IDIs to their deposit customers are protected by the federal safety net and the full panoply of prudential standards and supervision that accompany federal deposit insurance; and (ii) in most cases, detailed regulatory and financial information about these firms is readily available to Reserve Banks (as well as the public).[16] As we explain in greater detail below, actions that facilitate the growth of deposits and deposit-like liabilities at uninsured institutions could pose systemic risks under several of the principles identified in the Guidelines.

IV. **The Reserve Banks should take a deliberate, risk-based approach in considering whether to grant Payment Accounts to institutions that are not federally insured and not otherwise subject to federal prudential oversight.**

It is critically important that the Federal Reserve take a methodical, risk-based approach to considering whether to grant Payment Account access to institutions that are not federally insured and not otherwise subject to federal prudential oversight. Although the Payment Account would come with limitations and while we recommend further risk mitigants in these comments, we emphasize again that this proposal has the potential to greatly expand access to Reserve Bank payment services by uninsured institutions, representing a significant departure from longstanding Federal Reserve practice. Presumably, many Payment Account holders will be uninsured institutions not subject to federal prudential supervision; they may be entities with which the Federal Reserve and other federal regulators have no or only limited experience, and some legally eligible institutions may plan to operate within a regulatory and supervisory regime that is itself still emerging and legally untested (e.g., the regulatory regime governing stablecoin issuers under the GENIUS Act that has not yet been implemented; indeed, many of the required rulemakings have not even been proposed). Moreover, uninsured institutions are more susceptible to runs, especially during times of stress,[17] and many of these institutions have not experienced a full business cycle.

For these reasons, to the extent that institutions are newly chartered or operating within a new regulatory regime (such as the regulatory regime for certain uninsured state banks), they should be required to demonstrate successful safe and sound operation for a minimum of 12 months before being permitted to apply for a Payment Account.[18]

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[16] *See* Guidelines for Evaluating Account and Services Requests, 87 Fed. Reg. at 51100.

[17] *See, e.g.,* NAT'L COMM'N ON THE CAUSES OF THE FIN. & ECON. CRISIS IN THE U.S., THE FINANCIAL CRISIS INQUIRY REPORT 356–360 (Jan. 2011), https://www.govinfo.gov/content/pkg/GPO-FCIC/pdf/GPO-FCIC.pdf (finding that a run on uninsured prime money market funds helped cause the Global Financial Crisis).

[18] The Reserve Banks may wish to consider applying a similar standard to institutions that apply for Master Accounts, depending on the risks posed by the institutions.

Consistent with this deliberate approach and given the risks described above, Payment Account requests should be published for public comment by the Reserve Banks and reflected on the Board's Account Access Database, which itself should be updated on a weekly basis to ensure the public has adequate visibility into these requests.[19] Such transparency is critical because interested members of the public may have information that could bear on a Reserve Bank's consideration of a request for an account; such information may be particularly useful to the Reserve Bank with respect to relatively new institutions that have not undergone supervisory evaluation over a meaningful period. In addition, the Federal Reserve should publicly release a summary of how it analyzed the risks of any approved Payment Account request under the Guidelines, including any specific conditions or restrictions imposed and any commitments entered into by the applicant. This transparency is crucial for ensuring that Reserve Bank reviews of applicants are held to a robust and consistent standard and that conditions, restrictions, and commitments are consistently applied across the Federal Reserve System.

Further, although the RFI notes that a Reserve Bank would generally be expected to complete its review of a request for a Payment Account within 90 calendar days of receiving all documentation requested by the Reserve Bank, a longer period may be needed to ensure the Reserve Bank carefully considers the request and the risks that could be presented by the applicant, including through consideration of any public comments received. Indeed, requests for such accounts may come from institutions that have limited or no experience with federal prudential supervision and that are operating within a relatively new and untested regulatory and receivership regime (e.g., certain institutions with state uninsured bank charters). Although some risks may be mitigated by the design of the Payment Account, the account restrictions set out in the RFI cannot fully compensate for insufficient prudential supervision and, for newly established institutions, limited supervisory record and operating history (both in terms of financial performance and compliance and risk management efficacy). As a consequence, a Reserve Bank may need more than 90 days to complete what is likely to be a complex analysis.

Therefore, consistent with the cautious approach to Payment Accounts we recommend, the Reserve Banks should have a minimum of 180 days after receiving all requested documentation to complete a review of a Payment Account request. An even longer period may be warranted where, for example, the (i) the Reserve Banks have not yet fully evaluated the collective risks to financial stability posed by "a group of like institutions," as required by the Guidelines; or (ii) the eligible institution would operate within an emerging or very new regulatory regime (such as the regime applicable to payment stablecoin issuers), as it may not be feasible to evaluate comprehensively how effective the regulatory regime applicable to such an entity is in addressing the risks such entities pose or the entity's own safe and sound operation within that regime within a 90-day period.

Furthermore, if an institution is granted access to a Payment Account, the account holder should be subject to a one-year trial period during which it is subject to enhanced oversight by the appropriate Reserve Bank.[20]

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[19] We had previously recommended that Master Account applications from Tier 2 and Tier 3 institutions should be published for notice and comment for similar reasons. To the extent that such institutions continue to be permitted to apply for Master Accounts, we reiterate that recommendation. We also note that weekly publication would be consistent with other Federal Reserve practices, such as the weekly publication of the H.2 release.

[20] This trial period would be in addition to the risk controls discussed in section VI. Enhanced oversight may include, for example, periodic *ex post* reviews of a Payment Account holder's transaction activity by the appropriate Reserve Bank.

In addition, as with any account, the Reserve Bank should have discretion to lower the balance limit and/or suspend or close an account in specific cases if the Payment Account holder or the activity processed through the Payment Account poses undue risk under the Guidelines, including risk from BSA/AML or sanctions violations, risk to the Reserve Banks, payment system risk, monetary policy risk, or financial stability risk.

Moreover, given the significant risks described throughout this letter and need for corresponding controls, no holder of a Payment Account should be permitted to obtain a Master Account unless the institution (i) becomes an IDI or otherwise meets the Master Account eligibility criteria proposed above; and (ii) undergoes a comprehensive evaluation by the relevant Reserve Bank under the Guidelines as if it were a de novo requester.[21] A Payment Account should not be viewed as simply a step in the process of ultimately obtaining a Master Account or a "proving ground" where the holder "graduates" after a period of time to a Master Account.

Finally, through its oversight function over the Reserve Banks and in accordance with applicable law, the Board itself should play a role in ensuring that requests are reviewed against the same standards and that risk mitigants are applied consistently to Payment Accounts across Reserve Banks. Such a role for the Board would help avoid an uncoordinated approach among the Reserve Banks with respect to Payment Accounts, which might result in inconsistent precedent or encourage forum shopping by institutions seeking a Payment Account.

V. <u>We support the limitations on Payment Accounts contemplated in the RFI</u>.

The Board has explained that the proposed account limitations that would apply to Payment Accounts are intended to address the risks identified in the Guidelines. We support these limitations and make recommendations below for additional limitations and safeguards to help ensure that all relevant risks are appropriately addressed.

A. <u>Payment Accounts should be subject to overnight balance limits, and the Federal Reserve also should consider daily maximum transaction limits</u>.

The RFI provides that a Payment Account would be a special-purpose account with a Reserve Bank that could hold limited overnight balances and be used for the express purpose of clearing and settling the institution's payments.[22] As such, according to the RFI, Payment Account holders would be permitted to maintain only a limited balance in the account at the close of business sufficient to provide liquidity for their payment activity at the beginning of the next business day.[23] This feature is important

[21] We note that the Guidelines already contemplate that Reserve Banks will apply the Guidelines to existing account holders where appropriate, such as when a Reserve Bank becomes aware of a significant increase in the risks that an account holder presents due to, for example, changes in the nature of its principal business activities or financial condition. An application by a Payment Account holder for a Master Account presumably would constitute a significant increase in risk that the account holder presents under the Guidelines. We note–and agree with—the restriction in the RFI that an institution may have either a Payment Account or a Master Account, but not both.

[22] *See* Request for Information and Comment on Reserve Bank Payment Account Prototype, 90 Fed. Reg. at 60097.

[23] *See id*.

to mitigate credit risk to the Reserve Banks by limiting maximum exposure to the account holder, as well as to help ensure the Federal Reserve can control the size of its balance sheet. We agree that the balance in a Payment Account should be reduced below a specified limit at the Federal Reserve's close of business.[24]

The RFI contemplates setting the overnight balance limit at the lesser of $500 million and 10 percent of the Payment Account holder's total assets. Limiting balances in Payment Accounts is consistent with the purpose of a Payment Account to facilitate only payment, clearing, and settlement activity. Further, balance caps help ensure that Payment Account balances do not grow so large such that a single holder of a Payment Account—or all holders of Payment Accounts in the aggregate[25]—could have financial stability implications by attracting deposits away from insured banks and credit unions that extend credit to consumers and businesses or dramatically expand the size of the Federal Reserve's balance sheet.

While we support an overnight balance cap for these reasons, the cap would be more effective in mitigating risks if it were tailored to each Payment Account holder as well as subject to an absolute ceiling. Specifically, the Reserve Banks should establish an overnight balance cap for each holder of a Payment Account that is calibrated based on a combination of the account holder's historical payment activity, both transaction value and volume, and reasonably expected near-term settlement needs.[26] The proposed overnight balance limit of the lesser of $500 million and 10 percent of the institution's assets should serve as an upper bound on this cap for each Payment Account holder in order to limit the aggregate expansion of the Federal Reserve's balance sheet and footprint in the financial system attributable to Payment Accounts. Consistent with the Guidelines, the design of these balance caps must also consider the risks that each group of like Payment Account holders could pose as described under the Guidelines.[27]

The RFI notes that a Reserve Bank could have the ability to adjust the overnight balance limit, temporarily or permanently, on a case-by-case basis. In some cases, the Reserve Bank would be expected to consult with the Board on such an adjustment. First, to mitigate the risks associated with larger overnight balances described above, the Reserve Banks should be permitted to make ***upward*** adjustments up to the lesser of the $500 million or 10 percent asset threshold only temporarily—e.g., no longer than a specified very short period, such as a 24- or 48-hour period—and under specific

[24] Such a cap would not be unique. The Bank of England restricts the overnight balances for its "settlement accounts," which are unremunerated accounts used for payments by bank and nonbank participants, and charges fees for breaching these balance limits. In addition, the UK Financial Conduct Authority is required to (i) authorize non-bank payment service providers to ensure they meet rigorous conduct and consumer protection standards before gaining eligibility for Bank of England settlement accounts and (ii) supervise these institutions for ongoing compliance with these standards. Bank of England, *Access policy for RTGS settlement accounts and services* (April 2, 2025), https://www.bankofengland.co.uk/payment-and-settlement/access-policy-rtgs-settlement-accounts-services.

[25] Over time, the balances of all Payment Account holders could in the aggregate represent a significant Federal Reserve liability.

[26] Furthermore, the Reserve Banks must have the right to reduce this cap in a timely manner in light of the risks posed by the capital and liquidity resources of the institution, financial stability considerations, and other risk-based factors.

[27] *See* Guidelines for Evaluating Account and Services Requests, 87 Fed. Reg. at 51108–09.

circumstances, such as to address a temporary surge in payment volume due to special circumstances of limited duration. Second, a Payment Account holder seeking a permanent increase should have to undergo a comprehensive risk management review by the relevant Reserve Bank, and the proposed increase in the limit should be made public, as should the institution's original balance limit and the Reserve Bank's reasoning for granting any such request to increase it. Third, the Board should articulate the standards for when and how a Reserve Bank may adjust the overnight balance limit, either temporarily or permanently, to ensure transparency and consistency across Reserve Banks for such adjustments. Finally, any such adjustments should be appropriate for the reasonably expected near-term settlement needs of the Payment Account holder, the risks posed by the capital and liquidity resources of the institution, financial stability considerations, and other risk-based factors.

To further mitigate these risks posed by Payment Account holders, the Federal Reserve also should consider establishing maximum daily transaction volume and value limits that a Payment Account holder may not surpass without penalty. These limits could be set based upon the account holder's activities, characteristics, and risk profile, and would limit the ability of a Payment Account holder—or a group of Payment Account holders—to become more systemically important to the U.S. payment system without being subject to the full suite of federal regulations and supervisory oversight applied to IDIs and their holding companies. If a Payment Account holder wishes to process a higher volume and value of transactions on a permanent basis, the accountholder would have to become eligible for a Master Account as outlined above and obtain Reserve Bank approval to establish such an account.

B. Payment Account holders should have access only to payment systems that provide final, irrevocable settlement and are subject to real-time monitoring.

In addition, to ensure that credit risk to Reserve Banks is mitigated, a Payment Account holder should have access only to Reserve Bank payment systems that provide final, irrevocable settlement and are subject to effective real-time monitoring such that transactions will be rejected if the account holder lacks sufficient funds in its Payment Account. The RFI identifies those payment systems that meet this requirement: the Fedwire® Funds Service and the National Settlement Service ("NSS"); while the FedNow® Service provides final, irrevocable settlement, the Board has not publicly indicated whether it is subject to real-time monitoring.[28]

We support the RFI's proposal to deny Payment Account holders access to other Reserve Bank payment systems, including Federal Reserve check services, FedCash services, and the FedACH Service. Access to such services would create unacceptable levels of risk to the Reserve Banks and the overall payment system. The RFI justifies this decision on the ground that these services "do not currently have automated solutions that can reject transactions that would cause daylight overdrafts," but these

[28] The Payment Account appears designed, at least in part, to boost participation in the FedNow Service. If the Payment Account is adopted, it should be accompanied by greater transparency about this service, including pricing and plans to recoup costs as required by the Monetary Control Act. If the FedNow Service is subject to real-time monitoring, the Board should update the Federal Reserve Policy on Payment System Risk and its implementing guide accordingly. *See*, *e.g.*, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, FEDERAL RESERVE POLICY ON PAYMENT SYSTEM RISK § G.2 (July 20, 2023); BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, GUIDE TO THE FEDERAL RESERVE'S PAYMENT SYSTEM RISK POLICY ON INTRADAY CREDIT (July 20, 2023) § VI.A.2 n. 108 (noting that when an institution's account is monitored in real time, outgoing Fedwire Funds transfers and NSS transactions are rejected if such transactions exceed an institution's daylight overdraft cap).

services should be restricted even if such automated systems exist in the future.[29] Unlike payment systems such as the Fedwire Funds Service and the FedNow Service in which settlement of funds transfers is final and irrevocable, ACH items and checks are subject to long return windows.[30] For example, under Nacha rules, an ACH item that does not overdraw a Payment Account on the day it settles still could cause an overdraft weeks or months later if it is returned and the account holder does not maintain sufficient funds to settle for the return.[31] The same holds true for check services, because the Reserve Banks might receive returns or warranty claims without having a positive balance in the Payment Account to charge.

Further, complex payment systems like the FedACH Service require participating depository financial institutions ("DFIs") to have sufficient sophistication and expertise to manage the clearing and settlement of a high volume of ACH items, both credit and debit (unlike the credit-push-only functionality of the Fedwire Funds Service and FedNow Service). Allowing entities that are not subject to federal prudential supervision to access this payment service as a DFI and settle ACH activity in its own Reserve Bank account would significantly increase the risk to other DFIs, especially if the Reserve Bank refuses to handle a validly returned item due to its own credit risk. Only highly regulated financial institutions should be permitted to act as originating or receiving DFIs and settle ACH activity in their own Reserve Bank accounts.

NSS may present risks different from other Federal Reserve services because it is used to settle obligations that arise from activity cleared through private-sector services, such as payment or securities clearing systems. Because the Reserve Banks do not participate in such private-sector activity, the Reserve Banks generally would not have ongoing insight into the nature of the activity that a Payment Account holder is using NSS to settle or the risk posed by such activity—at least in the absence of transaction monitoring or ongoing diligence by the Reserve Banks of the account holder's activity. This opacity may introduce BSA/AML and other risks. The Board therefore should require the Reserve Banks, before allowing a Payment Account holder to become a settler in an NSS arrangement, to (i) confirm that such access will be used for the express purpose of settling the institution's privately cleared payment activity as part of its participation in a clearinghouse or other clearing and settlement arrangement; and (ii) consider the risks that such access may pose under each of the principles of the Guidelines, with a particular focus on impact to the overall payment system and financial stability (principles 3 and 4) and risks of facilitating illicit activity (principle 5), and require that appropriate risk mitigants and controls be adopted by the Payment Account holder and the Reserve Banks (e.g., ongoing transaction monitoring).

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[29] We expect any effort to build real-time monitoring capability for FedACH transactions would be significant and costly given both the complexity of the FedACH service (e.g., DFIs can send and receive both credit-push and debit-pull transactions) and the enormous volume of transactions it processes. If the Federal Reserve proposes to develop this capability, it should seek public comment consistent with longstanding Board policy regarding the pricing of Federal Reserve Bank services. *See* BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, PRINCIPLES FOR THE PRICING OF FEDERAL RESERVE BANK SERVICES (last updated Nov. 20, 2008), https://www.federalreserve.gov/paymentsystems/pfs_principles.htm.

[30] Although FedCash services would not present the same credit risk, access to those services would not be appropriate for Payment Account holders because cash heightens the risk of BSA and AML violations, as cash is easier to use for illicit purposes since it is less traceable than electronic payments.

[31] Even if the Federal Reserve could implement real-time monitoring for FedACH transactions, this monitoring could have negative effects for consumers and businesses using the service. For example, consumer bills might go unpaid if the monitor rejects the ACH debits originated to pay them.

The RFI also indicates that Payment Account holders would have access to the Fedwire Securities Service for free transfers only. Given the Board's principle that a Payment Account would be established "for the express purpose of clearing and settling the institution's payments," it is not clear why a Payment Account holder would need access to the Fedwire Securities Service. This service should not be made available to Payment Account holders unless the Reserve Bank determines that the service would be clearly related to the account holder's payment, clearing, and settlement activity.

We support the Federal Reserve's proposal that Payment Accounts not have discount window access, which could present credit risk to the Reserve Bank. This important safeguard is consistent with the condition that Payment Account holders have access only to those payment services that cannot result in an overdraft and thus cannot present credit risk to a Reserve Bank. To ensure this risk mitigant is applied consistently and durably over time, the Board should codify this condition in Regulation A.

C. <u>Interest should not be paid on balances in Payment Accounts</u>.

Consistent with the concept of granting an account for the express purpose of clearing and settling an institution's payment activity, the Federal Reserve has proposed that Payment Account holders should not receive interest on balances in their accounts. This limitation is crucial to address risks to financial stability and financial intermediation—risks that the Federal Reserve has itself identified in a similar context.[32]

With respect to financial stability risk, the Federal Reserve has observed that reserve balances are attractive investments during times of financial stress.[33] Deposits at institutions with Payment Accounts could be seen as more attractive than alternative investments such as Treasury bills, particularly if those deposits earned interest at a rate that would not necessarily fall as demand surged. As a result, Payment Accounts could serve as magnets for flights to quality from investments such as commercial paper or short-term debt issued by nonfinancial firms, financial firms, and state and local governments, which could greatly amplify systemic stress. If the Reserve Banks were to pay interest on balances in Payment Accounts, Payment Accounts would be even more attractive during times of financial stress, and runs on investments in these other entities could become more frequent and more severe.

With respect to financial disintermediation, paying interest on balances in Payment Accounts—which, again, are likely to be held by uninsured entities engaged primarily in payments activities and not traditional deposit taking and lending—could lead to fewer deposits being held at commercial banks. If deposits at institutions with Payment Accounts are seen as a more attractive investment than deposits at traditional deposit-taking banks and credit unions (because the former could now afford to pay a higher rate of interest), depositors would likely move some of their deposits to the former from the latter, even though many Payment Account holders would not be IDIs engaged in the business of taking

[32] *See* Regulation D: Reserve Requirements of Depository Institutions, 84 Fed. Reg. 8829, 8830–31 (March 12, 2019).

[33] *See id*. at 8831.

deposits to make loans to consumers and businesses. This reduction in deposits could increase bank and credit union funding costs, which in turn could raise the cost of credit for the real economy.[34]

With respect to the Federal Reserve's role in the financial system, paying interest on Payment Accounts would risk expanding the Federal Reserve's balance sheet beyond what is necessary to support account holder payment activity and would further expand the Federal Reserve's footprint in the financial system.[35] Paying interest on Payment Account deposits would increase demand for these accounts and balances held in them; because Payment Account deposits are a liability on the Federal Reserve's balance sheet, the Federal Reserve would have to purchase corresponding assets. Paying interest on these deposits thus could ultimately introduce challenges and complexities in controlling the size of the Federal Reserve's balance sheet.

We agree with the RFI that prohibiting the payment of interest on balances maintained in a Payment Account should be a term of the account itself and codified in Regulation D. Consistent with section 11(k) of the Federal Reserve Act, the Board cannot delegate rate-setting—much less the decision to pay interest at all—to the Reserve Banks. Consistent with the Federal Reserve Act, Reserve Banks should be prohibited by regulation from changing this important feature of the account.

D. **Payment Accounts should not be used to benefit third parties.**

We agree with the RFI that a Payment Account holder should not be permitted to act as a correspondent bank settling transactions in its Payment Account for respondent institutions.[36] In addition, consistent with the Reserve Banks' current practice for Master Accounts, we agree that the Reserve Banks should not recognize third-party interests in Payment Accounts.[37] Instead, a Reserve Bank should treat all balances in a Payment Account solely as obligations of that Reserve Bank to the account holder, as it does for balances in a Master Account. This would be a crucial risk-mitigation tool for the Reserve Banks for several reasons. First, only a limited number of institution types are legally eligible for Reserve Bank accounts. Recognizing the interest of customers of account holders in Reserve Bank accounts would contravene the longstanding statutory limitation on account provisioning by the Reserve Banks. Second, requiring Reserve Banks to recognize third-party interests in Reserve Bank accounts could expose Reserve Banks to undue risk. In the event of the insolvency or failure of the account holder, the Reserve Banks could be in a position of being subject to the claims of myriad third parties with respect to the balance of the account and would have to keep records of those persons to determine to whom they owe the balance of the account, which would be a tremendous drain on Federal Reserve resources and could create significant uncertainty and confusion.

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[34] *See*, *e.g.*, Wang, *Banks in the Age of Stablecoins: Some Possible Implications for Deposits, Credit, and Financial Intermediation* ("Empirical evidence confirms that funding shocks for banks generally translate into significant reductions in credit supply").

[35] Balance caps, even with the modifications we propose above, would not fully mitigate this risk, because payment of interest on balances would incentivize Payment Account holders to increase the size of their respective tailored balance caps and to maintain as high of a balance as possible up to their respective balance caps. Payment of interest is therefore a critical risk mitigant notwithstanding other risk mitigants proposed by the Board.

[36] *See* Request for Information and Comment on Reserve Bank Payment Account Prototype, 90 Fed. Reg. at 60098.

[37] *See id*.

To be clear, we understand the restriction outlined in the RFI that would prohibit Payment Account holders from acting as correspondent banks to mean that Payment Account holders will not be permitted to be sponsor banks (e.g., for fintech companies, payment processers, or money services businesses). Sponsor banks must be subject to a full federal examination and the highest levels of supervision. The Payment Account holder should be clearing and settling its own or direct proprietary payment flows, not providing these services to third parties. For the same reason, Payment Account holders should not be permitted to provide nesting arrangements, which would introduce unacceptable levels of BSA/AML risk.[38]

Similarly, the Reserve Banks should deny Payment Account applications from institutions that have been formed or are operated with the primary purpose of providing banking services to an affiliate, group of affiliates, or single unaffiliated party or group that would not itself be eligible or qualified for a Reserve Bank account. Absent this restriction, a Payment Account could effectively be used as a conduit that would both (i) expose the account holder to significant concentration risk with respect to that affiliate or third party and (ii) allow ineligible institutions to evade or circumvent legal eligibility requirements by establishing or utilizing an affiliate, or utilizing an unaffiliated third party, that establishes a Reserve Bank account operated in substantial part for the ineligible institution's own benefit. Such a restriction would also be consistent with the limitations Congress has imposed on the use of Federal Reserve accounts by certain financial institutions for transactions on behalf of their affiliates.[39] Given the importance of separating banking and commerce, this restriction would be particularly important for affiliates and third parties that predominantly engage in commercial, rather than financial, activities.[40] Account holder payment volume and value on behalf of any single affiliate, group of affiliates, or third party or group of third parties therefore should be capped at no more than 10 percent of a Payment Account holder's total payment volume.[41]

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[38] In a nested arrangement, a financial institution provides accounts and services to a fintech or other institution, which in turn processes activity for its own customers.

[39] *See, e.g.*, 12 U.S.C. § 1841(c)(2)(H) (excepting an industrial loan company from the BHCA's definition of "bank" so long as it does not "permit[] any overdraft . . . , or incur[] any such overdraft in such institution's account at a Federal Reserve bank, on behalf of an affiliate"). *See also* S. Rep. 100-19, at 10 ("'The risks inherent in parent-affiliate relationships would,' as Chairman Volcker observed, 'be exacerbated by the financial formula likely to be followed by a commercial parent seeking access to the payments system through ownership of a nonbank bank: token capitalization of the bank relative to both the size of the parent and to the very high dollar volume of transactions [funneled] through the bank.'").

[40] Uninsured institutions requesting Payment Accounts are less likely to be banks subject to the BHCA and thus could have affiliates that engage in commercial activities (unless they are affiliated with an IDI or other bank subject to the BHCA).

[41] While we note above that this restriction is important to maintain the separation of banking and commerce, risks also could be posed if a Payment Account were used to provide services to third parties or affiliates that themselves conduct bank-like activities. For example, some fintechs that provide payment services may also have affiliates or third-party partners that extend credit or offer deposit-like money management accounts. If a lending or money management affiliate can also provide customers direct payment system access through an affiliate's or partner's Payment Account, then together the group may closely resemble a fully functional bank, but one without consolidated federal supervision or any one entity being subject to full bank-like prudential supervision. The Federal Reserve must carefully scrutinize not only the activities of the Payment Account applicant but also the combined activities of the applicant, its affiliates, and other business partners and give due consideration to the risks that could be presented by these activities in the aggregate.

These restrictions are also important because third-party payment processing carries significant BSA/AML, sanctions, compliance, and fraud risks.[42] Any permitted use of a Payment Account therefore should require the Payment Account holder to commit to heightened risk management standards, including compliance with third-party risk management and BSA/AML expectations and examinations at the same level of rigor applicable to IDIs.

VI. <u>The Federal Reserve should establish additional risk controls for Payment Accounts</u>.

The RFI states that the Board is exploring additional risk controls and conditions for a Payment Account that "could cover areas of risks to the Reserve Bank and payment system (such as operational or cyber risks), or risks associated with illicit financing (such as [AML] risk mitigation)." The proposed risk mitigants in the RFI would primarily address credit risk to Reserve Banks, but these accounts present at least the same level of BSA/AML risk, operational, cybersecurity and other risks as Master Accounts. It is critically important that risk controls addressing those and other risks identified in the Guidelines be established and consistently applied across Reserve Banks to Payment Accounts. For example, without effective BSA/AML risk management, Payment Account holders could introduce BSA/AML risk to other participants in the payment system, which also could undermine confidence in the safety and security of the payment system as a whole.[43]

The Board should establish strict controls and oversight for Payment Accounts obtained by uninsured institutions to mitigate BSA/AML and economic sanctions risk consistent with those articulated in the Guidelines,[44] such as defining minimum standards and monitoring expectations,

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[42] In addition, because the Federal Reserve would continue its current practice of not recognizing third-party interests in Payment Accounts, institutions that obtain Payment Accounts may use those accounts to process their payment activity but custody customer funds with IDIs. The Board should consider whether such arrangements pose unacceptable risk under any of the standards in the Guidelines, including risk to the payment system or stability of the financial system. More generally, the Federal Reserve should consider which negative second-order effects could be precipitated if Payment Accounts are established. For example, it should consider whether there could be implications for bank and credit union funding models, including deposit classification, if funds previously held at IDIs were moved to Payment Accounts.

[43] This potential BSA/AML risk to the payment system is not hypothetical. There is a documented history of enforcement actions against nonbank entities for systematic BSA/AML and sanctions failures. The enforcement actions have consistently cited compliance issues with respect to, among other things, (i) poor transaction monitoring systems that fail to timely detect and escalate suspicious activity; (ii) inadequate customer due diligence/know your customer measures, especially for high-risk clients or given rapid onboarding; (iii) weak risk governance and oversight, including under-resourced compliance teams; (iv) sanctions screening failures and ineffective escalation of alerts; and (v) failure to implement enhanced due diligence for high-risk customers and jurisdictions.

[44] Indeed, as outlined in the Guidelines, Reserve Banks should confirm that Payment Account applicants have a BSA/AML compliance program consisting of the components set out below and in relevant regulations. These components include the following: (i) a system of internal controls, including policies and procedures, to ensure ongoing BSA/AML compliance; (ii) independent audit and testing of BSA/AML compliance to be conducted by bank personnel or an outside party; (iii) designation of one or more individuals responsible for coordinating and monitoring day-to-day compliance (i.e., a BSA compliance officer); (iv) ongoing training for appropriate personnel, tailored to each individual's specific responsibilities; and (v) appropriate risk-based procedures for conducting ongoing customer due diligence, including procedures to understand the nature and purpose of customer relationships for the purpose of developing a customer risk profile and conducting ongoing monitoring to identify

including but not limited to customer due diligence, transaction monitoring, and reporting of suspicious activities obligations.[45] Establishing strong controls is important, as the proposal in the RFI contemplates that entities that are not subject to comprehensive regulation or consistent oversight and that have not traditionally had direct access to a Federal Reserve account or services would be able to obtain such direct access. Historically, the Reserve Banks have generally relied on IDIs and other federally regulated institutions to serve as correspondents for such entities, with the entities then obtaining payment services from the federally regulated correspondents. These correspondents therefore interpose a layer of risk management on which the Reserve Banks could rely, as the entities with accounts serving as correspondents are themselves subject to robust regulation and supervision, including with respect to BSA/AML risk. Correspondent banks conduct due diligence and transaction monitoring for financial institutions for which they provide these services.

The Reserve Banks, in their capacity as payment system operators, do not supervise institutions with Master Accounts but rather rely on those institutions' primary supervisors to ensure that they abide by regulatory obligations. Because of the national imperatives of an effective, consistent BSA/AML and sanctions program, we believe that Payment Account holders should be either subject to examination and enforcement by a federal banking supervisor for these matters—or, absent such a supervisor, continued monitoring and assessments by the Reserve Banks, which could refer any findings to the institution's federal or state regulator for investigation and enforcement (e.g., the IRS and state banking agency, as well as the Financial Crimes Enforcement Network and OFAC). In all situations, the Reserve Banks should conduct an assessment of each institution requesting a Payment Account to evaluate the institution's risk management systems, including with respect to BSA/AML risk management before granting its account request.

Payment Account holders should be required to notify the Reserve Banks of material compliance and other risk issues, such as cybersecurity breaches that affect their the accounts.[46] In

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and report suspicious transactions and, on a risk basis, to maintain and update customer information. In addition, the Guidelines provide that the Reserve Bank should confirm that the institution has a compliance program designed to support its compliance with the Office of Foreign Assets Control ("OFAC") regulations and that an OFAC compliance program should identify higher-risk areas, provide for appropriate internal controls for screening and reporting, establish independent testing for compliance, designate a bank employee or employees as responsible for OFAC compliance, and create a training program for appropriate personnel in all relevant areas of the institution. The Reserve Banks should impose similarly rigorous standards and requirements for cyber risk management by Payment Account holders. A serious cybersecurity incident at a Payment Account holder could impair payment system participants and the Federal Reserve itself, with enormous consequences for financial stability and the U.S. economy.

[45] With respect to eligible institutions that will seek to become permitted payment stablecoin issuers under the GENIUS Act, the U.S. Department of the Treasury and the federal banking agencies have various rulewriting obligations, including with respect to BSA/AML and sanctions compliance requirements. The finalization of such rules will take time, and, consistent with our recommendation that entities demonstrate at least a year of successful safe and sound operation before being permitted to apply for a Payment Account, the entity's safe and sound operation must include compliance with BSA/AML and sanctions requirements. Therefore, these entities should not be understood to be eligible to apply for Payment Accounts until at least one year after commencing operation under the regulatory framework that is required to be established under the GENIUS Act.

[46] We note that the Reserve Banks' Operating Circular 5 requires institutions that have access to Federal Reserve services to provide immediate notice to the Reserve Banks of certain cybersecurity breaches and other events that

addition, Reserve Banks must be permitted to review Payment Account holders' other payment activity through their correspondent banks in order to ensure effective, holistic BSA/AML monitoring across the full scope of the account holders' payment activities.

To address other risks presented by a Payment Account, Payment Account holders should be required to:

- Have robust enterprise and operational risk management programs, including with respect to third-party risk, operational resilience, and new product approvals;
- Implement strong cybersecurity, information security and data protection measures, including with respect to identity and access management, IT resilience, network security, and cloud security;
- Comply with minimum capital and liquidity requirements and establish effective liquidity management practices;
- Have internal fraud and negligence risk management programs;
- Attest on a regular basis that they are in compliance with Federal Reserve Operating Circulars governing electronic access and participation in each payment rail;[47]
- Enter into an agreement with their Reserve Bank (which would be standardized as to content across all Reserve Banks) containing the account parameters and limitations adopted for Payment Accounts, as well as any needed variations from provisions in Operating Circulars;
- Participate in system and operational testing and endpoint security activities; and
- Maintain robust risk management, business continuity and contingency plans to ensure that, in the event of failure, they can be wound down in an orderly manner without causing systemic disruption.

In addition, before granting any Payment Accounts, the Federal Reserve should establish:

- Flexible, scalable risk-monitoring tools, including kill switches;
- Cyber and electronic access certification validation requirements;
- Scalability and capacity planning to ensure payments infrastructure can handle an increased number of participants and transaction volumes;
- 24/7 real-time monitoring of Payment Account balances;
- Effective liquidity management practices including intraday liquidity monitoring and tools to block payments that would cause an overdraft;

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impact their use of or access to Federal Reserve services. *See* FEDERAL RESERVE BANKS' OPERATING CIRCULAR NO. 5, GENERAL FINANCIAL SERVICE PROVISIONS § 1.4 (Jan. 5, 2026).

[47] Payment Account holders should be bound to the same Operating Circulars as Master Account holders with respect to their account and use of Reserve Bank financial services, including, but not limited to, Operating Circulars 1, 5, 6, and 8. We recommend that the Federal Reserve review its Operating Circulars and other account- and services-related guidance, agreements, and other materials for necessary updates to reflect the limitations and requirements applicable to Payment Accounts. These materials should be standardized and made transparent to the greatest extent possible to ensure consistent, appropriate risk mitigants are implemented across Reserve Banks.

- Robust testing requirements to ensure operational resiliency, including—if applicable to the institution—mandated participation in industry-wide exercises (e.g., FedLine Advantage® file import/export and protracted outage exercises); and
- Protocols for timely communication with counterparties in the event of payment system disruptions or outages related to a Payment Account holder.

VII. Conclusion

The question of which institutions should be permitted to open accounts with a Reserve Bank, whether a Master Account or a Payment Account, or obtain Reserve Bank services remains critically important in light of the risks that such accounts or services can present to the Reserve Banks, other payment system participants, and U.S. payment and financial systems. Because certain types of eligible institutions, such as uninsured depository institutions that are not subject to federal supervision at either the institution or holding company level, have not traditionally had direct access to Reserve Bank accounts or services and may present heightened risks, the Federal Reserve should proceed methodically and cautiously in considering whether such entities should have access to any type of Reserve Bank account, including a Payment Account. The Federal Reserve should ensure that any entity granted access to a Payment Account abides by the risk mitigants identified in the RFI as well as the additional risk mitigants we have outlined in this letter to mitigate the risks presented by providing Payment Accounts to institutions that have not traditionally had such access because they are not subject to comprehensive, consolidated supervision. In addition, the Board should ensure that requests are evaluated consistently and subject to the same risk controls across Reserve Banks.

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The Associations appreciate the opportunity to comment on the proposal and would welcome the opportunity to discuss our comments further with you. If you have any questions, please contact Paige Paridon by phone at (703) 887-5229 or by email at Paige.paridon@bpi.com or Rodney Abele by phone at (347) 703-1839 or by email at Rodney.abele@theclearinghouse.org.

Respectfully submitted,

Bank Policy Institute
The Clearing House Association
Financial Services Forum

cc: Mark Van Der Weide
General Counsel

Matthew Eichner
Director, Reserve Bank Operations & Payment Systems

Appendix A

Bank Policy Institute: The Bank Policy Institute is a nonpartisan public policy, research and advocacy group that represents universal banks, regional banks, and the major foreign banks doing business in the United States. BPI produces academic research and analysis on regulatory and monetary policy topics, analyzes and comments on proposed regulations, and represents the financial services industry with respect to cybersecurity, fraud, and other information security issues.

The Clearing House Association L.L.C.: The Clearing House Association L.L.C., the country's oldest banking trade association, is a nonpartisan organization that provides informed advocacy and thought leadership on critical payments-related issues. Its sister company, The Clearing House Payments Company L.L.C., owns and operates core payments system infrastructure in the United States, clearing and settling more than $2 trillion every business day.

The Financial Services Forum: The Financial Services Forum is an economic policy and advocacy organization whose members are the eight largest and most diversified financial institutions headquartered in the United States. Forum member institutions are a leading source of lending and investment in the United States and serve millions of consumers, businesses, investors and communities throughout the country. The Forum promotes policies that support savings and investment, deep and liquid capital markets, a competitive global marketplace and a sound financial system.