

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date: April 28, 2021
To: Board of Governors
From: Staff¹
Subject: Proposed guidelines to evaluate requests for accounts and services at Federal Reserve Banks

Action Requested

Approval to publish the attached Federal Register notice requesting public comment on guidelines (Account Access Guidelines) to be used by Reserve Banks in evaluating requests for Federal Reserve Bank accounts and financial services (accounts and services).

Summary

The payments landscape is evolving rapidly as technological developments and other factors are leading to the introduction of new financial products and services and new ways of providing traditional banking services (i.e., payments, deposit-taking, and lending). Relatedly, there has been a recent uptick in novel charter types being authorized or considered across the country, and, as a result, the Reserve Banks are receiving an increasing number of inquiries and access requests from novel institutions. To address this issue, the proposed Federal Register notice would seek public comment on proposed account access guidelines to evaluate requests for accounts and services at Federal Reserve Banks. The proposed approach takes into account the Federal Reserve System's legal authority and reflects an analysis of its policy goals of (1) ensuring the safety and soundness of the banking system, (2) effectively implementing monetary policy, (3) promoting financial stability, (4) protecting consumers, and (5) promoting a safe, efficient, inclusive, and innovative payment system. The Board's proposed guidelines are also intended to ensure that Reserve Banks evaluate a transparent and consistent set of factors when reviewing requests for accounts and services.

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Background

There has been a recent uptick in non-traditional federal and state charter types being authorized or considered across the country. The Reserve Banks are receiving an increasing number of inquiries and access requests from institutions with such non-traditional charter types, which raise important interpretive and policy issues for the Federal Reserve regarding whether these non-traditional charters would become Federal Reserve members or should have access to Federal Reserve accounts and services. In letters to policymakers at the Reserve Banks and the Board, as well as other public channels, some industry stakeholders have raised questions about the potential risks if entities holding non-traditional charters obtain Federal Reserve accounts and services. Some stakeholders have requested that the Board adopt a transparent and uniform policy across the System that sets forth appropriate criteria for evaluating requests for Federal Reserve accounts and services.

Although the Reserve Banks have received such inquiries on an exceptional basis in the past, the increase in the number and novelty of inquiries by institutions with nontraditional charter types merits consideration of whether a transparent and consistent approach should be adopted by the Reserve Banks. Such an approach would recognize that account and services access decisions made by individual Reserve Banks could have implications for broader Federal Reserve policies and objectives and that institutions' charters and level of supervision and regulation could have implications for risks posed to the Federal Reserve, the payments system, and the financial system more broadly.

Given that access decisions made by individual Reserve Banks have implications for an array of Federal Reserve policies and objectives, a more transparent, consistent framework for identifying and considering the risks posed by requests for access to accounts and services could help to clarify expectations for potential applicants, address important risks, and support Reserve Banks in making prudent, consistent, and timely account-request decisions. The proposed guidelines for making account and service access decisions includes a scope of applicability, a set of principles and a process for information sharing and coordination with the System. The guidelines are generally informed by other policy guidance on account access for particular types of entities, such as joint accounts and account access by DFMUs.

The proposed guidelines are consistent with the Federal Reserve's broad policy goals of promoting the safety and soundness of the banking system; effectively implementing monetary

policy; promoting financial stability; protecting consumers; and promoting a safe, effective, efficient, inclusive and innovative payment system. The proposed approach is based on a foundation of risk management and mitigation. It recognizes that risks to the Reserve Banks, to the payment system, to financial stability, and to the effective implementation of monetary policy, among others, may arise when an institution gains access to a Federal Reserve account and services. The proposed guidance to systematically evaluate each major type of risk will promote a level playing field in which legally eligible institutions with similar risk profiles will be treated in similar ways across Reserve Banks.

The introduction of the Federal Register Notice discusses the broad policy goals that the Federal Reserve considers when providing accounts as well as the reasons it is proposing to issue guidelines. The primary focus of the guidelines is the review of new requests for accounts and services; however, the introduction includes language regarding the application of the guidelines to existing accounts and services. Currently, Reserve Bank risk management practices include monitoring the condition of institutions with accounts and services on an ongoing basis using supervisory ratings, capitalization data, and supplementary information. Reserve Banks use this process to determine whether risk controls or other restrictions should be placed on an institution's account. For example, the process is used to determine if an institution continues to remain eligible for primary credit. The proposed account access guidelines, if adopted, would likely be used by the Reserve Banks to re-evaluate the risks posed by an institution in cases where there are material changes to an institution's risk profile.

The draft guidelines take the form of a set of six principles that Reserve Banks would be expected to consider when reviewing requests by depository institutions for accounts and services. The first draft principle makes clear that only institutions that are legally eligible are in scope, and the remaining five principles are designed to address the specific risks highlighted above. Staff is considering whether it may be useful in the future to clarify the interpretation of eligibility under the Federal Reserve Act for a Federal Reserve account and services. The principles identify potential risks and prompt the Reserve Bank to identify risk mitigants on both the institution side (including capital, risk frameworks, state/federal supervision, etc.) and the Reserve Bank side (including account agreement provisions, restriction on financial services accessed, account risk controls, denial of account request, etc.).

The identified factors in the principles are commonly used in the regulation and

supervision of federally insured institutions. When applying the account access guidelines, Reserve Banks would incorporate, to the extent possible, the assessments of an institution by state and/or federal supervisors into its independent assessment of the institution's risk profile. Given the principles utilize factors broadly applied to federally insured institutions, the application of the guidelines to access requests by federally insured institutions would be fairly straightforward in most cases. However, Reserve Bank assessments of access requests from non-federally insured institutions would likely require more extensive due diligence.

The draft account access guidelines would provide Reserve Banks an overarching framework to use when determining whether an account and services request should be granted and would increase the transparency of the factors used to evaluate requests.

Attachments