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Proposal and Comment Information

Title: Request for Information and Comment on Reserve Bank Payment Account Prototype, OP-1877

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Submitter Information

Name: Anonymous

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Executive Summary

This comment supports the proposed Payment Account prototype as a pragmatic way to enable payment-focused institutions to access Federal Reserve settlement services while maintaining clear risk boundaries. The model is most effective when treated as a payment-only settlement layer, distinct from balance-sheet intermediation, with key risks—liquidity, operational resilience, and AML/BSA/CFT, addressed through deterministic, infrastructure-enforced controls. The comment highlights implications of prefunding, transaction rejection, and overnight balance limits, and offers targeted observations on use cases, innovation impacts, and design refinements.

Introduction

I appreciate the opportunity to comment on the proposed Payment Account prototype. My perspective reflects long-standing work on payment infrastructure design, including instant payments, payment-only access models, and settlement architectures that separate payment functionality from balance-sheet risk while preserving safety and public policy objectives. Overall, the Payment Account represents a thoughtful response to evolving payment business models, provided it aligns with 24/7 operational realities and embeds risk controls directly into account rules and infrastructure.

Q1

Yes. For a defined class of payment-focused institutions, the design would effectively support payment activity. It aligns with high-velocity clearing and settlement models rather than credit intermediation. The separation from a master account provides important clarity of purpose and risk containment, particularly for real-time payments relying on prefunding and automation. Effectiveness will depend on whether liquidity constraints remain workable across normal, peak, and stress conditions.

Q2

The Payment Account is well suited to prefunded instant or real-time payments, payment flows designed to minimize credit risk, and payment-native models prioritizing continuous availability and predictable settlement. It is less suited to activities requiring intraday credit, correspondent or nested settlement, or batch-based mechanisms such as traditional ACH. These limitations appropriately reinforce the prototype's risk-mitigating intent.

Q3

The prototype can reduce barriers created by the binary choice between full master account access and reliance on correspondent banking. For payment-focused institutions, a settlement account designed specifically for payment activity can reduce complexity and cost, improve settlement transparency, and encourage innovation focused on payment efficiency and resilience rather than regulatory form.

Q4

The prototype does not appear to expand the range of risks identified in the Guidelines and may reduce some risks by constraining account usage and prohibiting overdrafts. Operational and liquidity risks remain important. In prefunded environments, transaction rejection can propagate stress during peaks or disruptions and should be addressed through clear operational standards, testing, and contingency planning rather than discretionary intervention.

Q5

An overnight balance limit reinforces the payment-only nature of the account and constrains balance-sheet exposure. Challenges include managing liquidity across weekends and holidays, accommodating infrequent peak flows, and avoiding inefficient intraday behavior. The proposed formula is a reasonable starting point, with case-by-case adjustment authority important for legitimate operational needs.

Q6

Not paying interest is consistent with the account's narrow purpose and discourages use as a store of value. A potential drawback is increased end-of-day balance minimization, adding operational complexity. Predictable enforcement and balance limits calibrated to realistic liquidity needs can mitigate this effect.

Q7

AML/BSA/CFT mitigation should be aligned to payment activity and reinforced through infrastructure-level controls. Effective approaches include proportionate program requirements, periodic attestations and independent testing, and activity-based monitoring reflecting transaction velocity, volume, and cross-border exposure. Deterministic, auditable controls embedded in account rules can complement supervisory oversight.

Q8

The Board may wish to consider clearer expectations for operational resilience, greater specificity around "streamlined review," and reporting focused on payment activity metrics rather than balance-sheet measures to ensure alignment with the account's intended purpose.

Conclusion

The Payment Account represents a constructive evolution in access to Federal Reserve payment services. By separating payment settlement from credit provision and embedding risk controls directly into account design and operations, the prototype can support innovation while preserving the safety and integrity of the U.S. payment system.