

FINANCIAL TECHNOLOGY ASSOCIATION, PENNY LEE

Proposal and Comment Information

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

Comment ID: FR-2025-0083-01-C43

Submitter Information

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Organization Type: Organization

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Submitted Date: 02/06/2026

Please see attached letter.

February 6, 2026

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

**FTA Comment Letter re: Request for Information and Comment on Reserve Bank
Payment Account Prototype (Docket No. OP-1877)**

The Financial Technology Association (FTA) appreciates the opportunity to comment on the Board of Governors of the Federal Reserve System's (Federal Reserve or Board) Request for Information and Comment on a Reserve Bank Payment Account Prototype (hereinafter the Payment Account). FTA welcomes the Board's decision to seek public input on a proposed framework intended to support payment-focused institutions while managing risks to Reserve Banks and the broader payments system.

FTA is a network of fintech leaders shaping the future of finance. We champion the power of technology-driven financial services to catalyze innovation and advocate for modernized policies and regulations that reflect this digital transformation. FTA members play a critical role in modernizing payment infrastructure, reducing cost and friction, and improving access and outcomes for consumers and businesses. An innovative, competitive, and resilient payments system is critical in supporting consumer financial health and broader economic growth and dynamism.

To meet these objectives, FTA offers the following key takeaways and recommendations:

- Providing well-regulated, payments-focused companies with broad and robust access to national payment systems is critical to achieving the Trump Administration's modernization, competition, affordability, and resiliency goals;
- The proposed Payment Account should be adjusted to ensure broad and positive impact by expanding access to core payment rails—including FedACH—which are essential to scaling payment activity, while mitigating risks through tailored controls rather than exclusions; and
- The proposed Payment Account should not limit or restrict the ability of an eligible institution to seek or obtain a Master Account.

I. Granting Well-Regulated Payments Companies Direct and Robust Access to National Payment Systems Will Advance Key Trump Administration Priorities

FTA commends the Board for its proposed Payment Account and views this as a central pillar to payment system modernization in our country. The existing U.S. payment system remains heavily reliant on legacy structures and approaches that are increasingly misaligned with the speed, scale, and security demands of our modern, digital economy. This status quo is at odds with the dramatic acceleration that financial technology innovation has brought to payment capabilities and technologies. It is further exacerbated by the fact that generally only legacy banks have direct access to Federal Reserve clearing and settlement infrastructure, requiring well-regulated payment firms to bear frictions, costs, and delays of operating indirectly through sponsor institutions.

Other leading jurisdictions—including the U.K., the EU, Brazil, Singapore, Canada, Australia, and Japan—have moved decisively toward modern, real-time, and interoperable payment systems, many of which enable broader participation by payments-focused firms under tailored regulatory frameworks, while maintaining strong regulatory oversight.¹ Systems such as Brazil's PIX,² the UK's Faster Payments, Singapore's PayNow and the EU's SEPA Instant Credit Transfer have significantly expanded consumer and small business use of digital payments, often through simple mobile or QR-enabled interfaces, contributing to lower costs, increased digital adoption, and a faster and more competitive payment ecosystem.

In contrast, the prevailing U.S. intermediary model increases costs, introduces chokepoints, undermines competition, reduces direct regulatory supervision, and creates concentration and debanking risks due to reliance on just a few large banks for processing the majority of payments transactions in the country.³ Currently, just two banks originate approximately 50% of U.S. ACH transactions, creating significant concentration risk and underscoring how broader direct participation by regulated payments-focused institutions could diversify access and strengthen overall system resilience.⁴ The existing model has further undermined broader FedNow adoption as a combination of countervailing incentives and technological incompatibility have chilled legacy bank participation.

¹ Giancarlo, J.C., Gorfine, D. and Peters, B. (2025) *The case for payments modernization*. Available at: <https://www.milkenreview.org/articles/the-case-for-payments-modernization>.

² Finextra (2025) *Brazil's Pix hits six billion transactions a month*. Available at: <https://www.finextra.com/pressarticle/103976/brazils-pix-hits-six-billion-transactions-a-month>.

³ Financial Crimes Enforcement Network (FinCEN) (2014) *FinCEN Statement on Providing Banking Services to Money Services Businesses*. Available at: <https://www.fincen.gov/news/news-releases/statement>.

⁴ Nacha (2025) *2024 Top Ach Originators By Volume*. Available at: https://www.nacha.org/sites/default/files/2025-03/Top-50-Originators_and_Receiver_2024.pdf.

As the Federal Reserve's proposal indicates, modernizing access to core payment infrastructure can help to reduce costs, improve settlement timing, and strengthen the resilience and competitiveness of the U.S. payment system. Such an infrastructure upgrade can further supercharge the benefits fintech innovation has brought over the past decade, including increasing access, facilitating new tailored products and services, and digitizing finance. Powered by technology and upgraded payment rails, real-time money movement, embedded financial services offerings, and rapid innovation will further empower consumers and small businesses alike.

Unfortunately, the U.S. has lagged peer jurisdictions in payments modernization not due to a lack of technology or capital, but because legacy structures limit how innovation can be deployed at scale, effectively locking in place the status quo.⁵ A carefully designed Payment Account can lower costs for merchants and consumers, improve end-to-end traceability and regulatory visibility, and enable providers to build and integrate innovative payment solutions directly on Federal Reserve infrastructure. By reducing reliance on intermediary arrangements, such an account could also support broader adoption of FedNow and expand consumer and small business access to real-time payment rails.

The potential benefits of payment system modernization can only be recognized, however, if the Payment Account concept broadly attracts, incorporates, and leverages the benefits of leading payments-focused providers.

II. The Federal Reserve Should Optimize the Payment Account Design to Drive Innovation, Competition, and Resiliency—including supporting FedACH access

To fully realize the benefits of the Payment Account described above, the Federal Reserve should refine the proposed Payment Account's privileges and requirements. While we support the intent of the prototype, the current proposed design includes certain restrictions that would inadvertently undercut key policy objectives and instead could be addressed through more tailored risk management measures.

A. The Board Should Include Access to the FedACH Network and Additional Payment Services in its Payment Account

The proposal would permit Payment Account holders to access the FedWire Funds Service, National Settlement Service, FedNow Service, and FedWire Securities Service, each of which includes automated controls designed to prevent overdrafts. FTA supports this access and

⁵ See Giancarlo, J.C., Gorfine, D. and Peters, B., 2025.

believes the proposed Payment Account will advance adoption of real-time payments through FedNow.

However, ACH remains the foundational rail for a substantial share of U.S. payment activity, particularly for recurring, high-volume transactions. The proposal excludes access to FedACH, Check Services, FedCash, and additional FedWire Securities transaction types. It further would prohibit Payment Account holders from acting as correspondent banks or settling transactions on behalf of respondent institutions.

FTA recognizes that these parameters are intended to limit risk and ensure the Payment Account remains narrowly tailored to payment activity. However, when viewed collectively—rather than in isolation—the combined effect of these restrictions will significantly limit the account’s utility for payment firms operating at scale. In particular, excluding FedACH materially constrains the ability of Payment Account holders to support many foundational payment use cases that remain central to the U.S. payments ecosystem, including payroll, bill payments, and recurring consumer and business transactions. FedACH uniquely supports third-party debit (“pull”) transactions, allowing a third party—such as a utility company—to initiate a transaction to “pull” funds from a customer’s bank account without any action by the customer at the time. By contrast, FedNow and FedWire only support push transactions where the customer has to specifically request their bank to “push” funds to the recipient’s bank account. FedACH pull functionality supports a number of transaction types like scheduled bill payments and recurring subscriptions where the customer authorizes the recipient to automatically charge their account on a schedule.

As a result, if a final Payment Account framework prohibits access to FedACH, payment firms would continue to rely on bank intermediaries for a substantial portion of payment activity, undermining the efficiencies, cost-reduction, and risk-reduction benefits that direct access is intended to achieve. Additionally, this exclusion perpetuates existing concentration risk in ACH origination, where just two banks currently account for approximately 50% of U.S. ACH transactions. Maintaining a model that requires well-regulated payment firms to route ACH activity through a small number of intermediaries does not mitigate systemic risk—it entrenches it, while limiting diversification and competition in a core national payment rail. This concentration also increases the risk of debanking since payment providers serving particular customer segments risk losing access to core rails for reasons unrelated to their actual payment risk or compliance posture.

With respect to counterparty or credit risks posed by Tier 2 or Tier 3 institutions that have been identified by the Board, FTA respectfully submits that a more nuanced and tailored approach to identifying and mitigating such risks would be appropriate and does not require outright exclusion from FedACH. More specifically, many Payment Account holders, particularly

payments companies, pose low counterparty or credit risk. Payments companies' core business is to receive funds from payers and payout those funds to payees, investing funds in low risk asset types in the meantime (e.g., short-term Treasuries and AAA money market funds). Similarly, many categories of eligible institutions, such as national trust banks, are limited in the types of activities they can perform, many of which pose little or no credit risk, such as custody and safekeeping of customer assets on a 1:1 basis.

Based on the low risk and range of payments activities in the marketplace, as a threshold matter, the Board should avoid a binary FedACH access model and instead consider a range of risk-management tools that are more appropriate than blunt exclusion. The Board should further consider whether risks associated with "push" transactions are distinct from those connected with "pull" transactions and where credit risk may not be present. The Board could accordingly apply existing risk-management tools, while supporting FedACH access, including through:

- **Calibrated Collateralized Capacity and Reserve Requirements:** The Board's existing payment system risk policies allow payment system participants to post certain high-quality liquid assets (HQLA) as collateral to establish "collateralized capacity" – which would function here as additional secured credit capacity in the unlikely event that a Payment Account is overdrawn. The Board can implement dynamic collateralized capacity, dynamic prefunding (for credits) and reserve (for debits) mandates that are directly indexed to an institution's historical and projected transaction volume. By requiring account holders to maintain a specific liquidity buffer tailored to their real-time settlement obligations, the Board can ensure that every Payment Account holder has "skin in the game" and reduce risk in the ACH network.
- **Interest Charges:** The Board's existing policies also allow it to charge interest on account overdrafts, and the Board could charge any Payment Account holder a significant interest rate on collateralized or uncollateralized intraday credit to further incentivize proper liquidity management.
- **Supervisory Process and Access Restrictions:** In the unlikely event that a Payment Account holder experienced repeated, material overdrafts in connection with FedACH access or other activities, the Federal Reserve could directly, and in coordination with other applicable regulators, use the supervisory process to inspect the institution's processes. In more severe scenarios, Federal Reserve policies enable the Board to exclude an account holder from FedACH or other relevant Federal Reserve services.

While FTA believes these existing tools are sufficient to address the risk of Payment Account holders, particularly for low-risk payments companies, the Federal Reserve could also further enhance these tools for Payment Account holders specifically through:

- **Performance Bonds and Risk-Based Collateralization:** To address tail-risk scenarios, the Board could require Payment Account holders to maintain performance bonds, ensuring that any operational or settlement failures are absorbed by the participant's pledged capital rather than the broader payment system.
- **Real-Time Automated Monitoring and Hard Controls:** Modernizing the supervisory approach through automated monitoring requirements would allow the Federal Reserve to implement "hard stops" on any transaction that would result in an unauthorized overdraft. These automated controls could provide a technological guarantee that no institution can exceed its pre-settlement limits, thereby protecting the integrity of the Reserve Bank's balance sheet without stifling participation.

Absent FedACH access, the Payment Account cannot fully deliver the competition, resiliency, and modernization benefits the Board seeks to advance. Therefore, FTA strongly urges the Board to expand Payment Account access to FedACH in order to realize the full benefits of increased participation and system modernization. Categorical exclusion of Tier 2 and Tier 3 entities in FedACH will lock the status quo for a substantial portion of payment transactions in America and limit the benefits of competition and innovation. At a minimum Payment Account holders that meet certain criteria (e.g., meet certain HQLA requirements and post sufficient collateral) should be able to access FedACH.

B. The Board Should Calibrate Balance Limits to Support Scaled Payment Activity

The proposed overnight balance limit—the lesser of \$500 million or 10% of total assets—is unduly restrictive for major payment processors handling billions in daily volume. While FTA recognizes the Board's desire to ensure accounts are used solely for payments, a static cap based on asset size creates significant operational friction.

For high-volume firms, these low caps may force "just-in-time" liquidity management that increases operational risk. We recommend that the Board calibrate balance limits to transaction throughput or payment volume rather than static asset size. A volume-indexed approach would more accurately reflect a firm's actual payment risk and ensure the account remains a viable tool for large-scale innovation. At the same time, limits that are based on transaction throughput or payment volume would mitigate the risk that an account is used for non-payments purposes – e.g., a limit calibrated to expected payment flows would effectively block the ability to fund additional amounts in the account for non-payments-related, investment activity. Such a throughput—or volume-based limit—thus achieves the Board's purposes while allowing sufficient operational capacity for the Payment Account holder's standard payment functionality.

Additionally, the prohibition on interest on reserves (IOR) will be a powerful disincentive for a provider to hold excessively large balances at the Fed. To the extent the Board maintains this prohibition it should obviate the need for the Board to include the low proposed balance caps.

III. The Federal Reserve Should Confirm that the Payment Account Does Not Impede Master Account Eligibility and Should Define Clear Transition Pathways

To ensure the Payment Account prototype serves as a catalyst for payment system modernization, FTA recommends that the Board underscore that the Account is an *optional* "on-ramp" to the Federal Reserve system. To this end, it is important to confirm that the establishment of a Payment Account does not alter or impede an institution's statutory eligibility for a full Master Account. Additionally, the Board should ensure tailored supervision of such Account holders based on identifiable risks rather than applying a one-size-fits-all approach developed for insured depositories. By confirming the Payment Account as a complementary and optional pathway, the Board can foster a modern payment system, while upholding the independence and discretion of the Federal Reserve Banks in administering account access consistent with the Board's Account Access Guidelines.⁶

A. The Board Should Confirm Statutory Eligibility for a Master Account and Ensure the Payment Account Is Non-Exclusive

FTA applauds the Board for the proposed creation of an optional Payment Account, which can be a complement to a Master Account. It is important to underscore, however, that the creation of the Payment Account does not alter statutory eligibility for a full Master Account. As the Board has previously acknowledged—both in its Account Access Guidelines and in litigation involving *Custodia Bank*—a state-chartered Special Purpose Depository Institution (SPDI) that meets the definition of a "depository institution" under 12 U.S.C. § 461(b) is statutorily eligible to apply for a Master Account.

Accordingly, the Payment Account should function as a complementary option, not a mandatory categorization. Eligible institutions should retain the right to apply for a full Master Account where their business model, scale, and risk profile justify broader access, and receive a fair and timely review of such applications.

B. The Board Should Establish Clear Transitional Pathways ("Graduation")

Given the nature of the Payment Account, the Board should define clear pathways for an Account holder to transition—or graduate—to a full Master Account as its transaction volumes, operational maturity, or business model evolves. This will allow firms to develop their business models and regulatory status as appropriate. Absent such a mechanism, the Payment Account risks functioning as a mandatory, permanent categorization that stifles a firm's ability to evolve. The Board should accordingly establish a predictable route for firms to transition to a full Master Account, while allowing the Federal Reserve to apply oversight standards that are appropriately

⁶ Federal Reserve (2022) *Guidelines for Evaluating Account and Services Requests*, Docket No. OP-1747. Available at: <https://www.federalreserve.gov/newsevents/pressreleases/files/other20220815a1.pdf>.

calibrated to a firm's specific risk profile—initially focusing on payment-specific risks and shifting toward broader prudential considerations as the firm's relationship with the Reserve Bank deepens.

Furthermore, this "on-ramp" model provides the Federal Reserve with an invaluable evidence-based oversight period, allowing firms to build a verifiable supervisory track record before seeking broader privileges. Establishing clear milestones for transition, if pursued by the firm, provides regulatory certainty necessary to invest in long-term innovation. By ensuring that the Payment Account remains a flexible choice and that Master Account applications continue to receive fair, timely, and independent review, the Board will uphold the integrity of the Federal Reserve Act, while providing a dynamic tool for modernizing U.S. financial infrastructure.

C. The Board Should Apply Clear Review Criteria and Enforce Timely Decisions

FTA strongly supports the Board's proposal to complete application reviews within 90 calendar days after receipt of a complete application. This commitment represents a meaningful improvement over historically prolonged and uncertain timelines that have, in the past, acted as a de facto barrier to market entry. Establishing a predictable 90-day benchmark aligns the Payment Account prototype with the core objectives of 12 U.S.C. § 4807, which expresses clear Congressional intent for federal banking agencies to take prompt final action on applications. By setting a 90-day deadline for this specific, narrowly tailored account, the Board provides the regulatory certainty necessary to foster a competitive and innovative payments landscape.

While FTA recognizes that limited extensions may be appropriate for complex cases, the overall review process should remain disciplined and generally conclude within three to six months. Adhering to these timelines is critical to avoiding the types of delays that discourage investment and leave innovative firms in a state of operational limbo. A strict adherence to timely decision-making will ensure that the Payment Account serves its intended purpose as a responsive tool for modernizing U.S. financial infrastructure.

Furthermore, clear review criteria are essential to ensure that the "90-day clock" is applied fairly and consistently. The Board should provide specific guidance on what constitutes a "complete application" to prevent open-ended information requests from indefinitely pausing the review period. By combining transparent criteria with a firm commitment to timely action, the Federal Reserve can uphold its statutory obligations while providing a reliable pathway for eligible institutions.

D. The Board Should Tailor and Align Oversight with Payments-Specific Risks

To ensure the Payment Account prototype effectively balances innovation with safety, the Board should implement an oversight framework that is tailored and calibrated to the specific risks

posed by the activities permitted within the Payment Account. Unlike traditional Tier 1 banks that engage in fractional reserve banking and credit intermediation, Tier 2 and Tier 3 institutions without insured deposits operate under a fundamentally different risk profile. These institutions do not pose the same run risks associated with federally insured retail deposits, nor do they create the systemic credit exposures inherent in lending. Consequently, applying bank-style capital rules designed to buffer against credit defaults would create unnecessary barriers to entry without a corresponding increase in systemic safety.

Tailored oversight should instead prioritize governance, operational resilience, and robust compliance capabilities. Because the primary risks posed by these institutions are operational and technical rather than credit-based, the Federal Reserve's supervision should focus on the integrity of the firm's settlement systems, its ability to maintain continuous uptime, and the rigor of its BSA/AML and cybersecurity programs. By shifting the focus from static capital ratios to real-time operational health, the Board can create a supervision model that is both more effective and more reflective of how modern payment firms actually function.

Furthermore, by supervising Tier 2 and Tier 3 firms securing a Payment Account based on their specific activities, the Board can ensure that these entities maintain the necessary technical safeguards to participate safely in the national payment system without being forced into a regulatory "one-size-fits-all" model. This nuanced alignment of requirements with actual risk profiles will preserve the safety and soundness of national payment systems, while providing the flexibility needed to foster a more competitive and accessible financial ecosystem.

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FTA appreciates the Board's engagement on the proposed Payment Account prototype and its efforts to solicit input on the future of payments access. We welcome the opportunity to provide further information or meet with Board staff to elaborate on these recommendations.

Sincerely,



Penny Lee
President and Chief Executive Officer
Financial Technology Association