INTERLEDGER FOUNDATION

Proposal and Comment Information

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

Comment ID: FR-2025-0083-01-C48

Submitter Information

Organization Name: Interledger Foundation

Organization Type: Organization

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Please see the attached comment letter from the Interledger Foundation.

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

February 6, 2026

Re: Comment of the Interledger Foundation on Docket No. OP-1877 Requesting Information on a Special Purpose Payment Account Prototype

Dear Mr. McDonough,

The Interledger Foundation appreciates the opportunity to provide feedback on the Board's proposed special purpose Payment Account prototype.

We are a nonprofit grantmaking organization based in California, with current and former grantees in 42 countries, supporting efforts that advance digital financial access and sustain resilient, interoperable payment infrastructure. We do not ourselves provide consumer financial services, nor do we seek access to Federal Reserve accounts or services. Our role as a private philanthropic foundation is to steward and maintain open source digital public goods and digital public infrastructure used by small financial service providers, including credit unions, community banks, and emerging fintechs, to build and interconnect accounting ledgers. Because we support these implementers, who are often those serving low-income households and/or traditionally-excluded communities, we hear, in practical terms, where frictions translate into higher costs, slower funds availability, and weaker reliability for consumers who can least afford disruption.

We submit these comments through a consumer outcomes and system resilience lens. In our work, financial inclusion is most meaningful when it improves the lived experience of financial life: wages arrive when promised, bills paid without cascading fees, benefits disbursed without delay, and payment options exist that do not penalize people for being poor. We have also argued[1] that financial participation increasingly functions as an enabling condition for the enjoyment of other rights, including economic security and non-discrimination. As payments digitize, exclusion from modern rails can become a form of structural disenfranchisement, which is why we welcome the Board's exploration of approaches that may support responsible innovation while maintaining the risk discipline required for a safe and efficient payment system.

1. Would the design of the Payment Account prototype support payment activities of eligible institutions?

For a meaningful subset of payments-focused eligible institutions, we believe the Payment Account prototype could support core payment activities, particularly where an institution's need is reliable settlement access rather than the full functionality of a master account. Many smaller providers that serve low-income consumers are not seeking to replicate a full-service bank model; they are seeking predictable access that allows them to deliver faster funds availability and lower costs to end users. We consider the proposal's risk-mitigating features (prefunding, automated controls that reject transactions that would create overdrafts, no Reserve Bank intraday credit, and no discount window access) to be directionally aligned with the Board's objectives, because they can enable settlement while limiting exposure to credit risk.

Whether this support is realized in practice will depend heavily on implementation. A tailored account type can only deliver public value if eligibility expectations are clear, review timelines are credible, and standards are applied consistently. From the perspective of providers building for underserved users, this predictability would directly shape whether capital is deployed toward inclusive products and whether consumer benefits materialize at scale.

2. What payment activities or use cases would a Payment Account best facilitate (or be unable to facilitate)?

The Payment Account would best facilitate use cases where the value proposition is speed, certainty, and lower-cost settlement for payments that matter to household stability. That includes real-time or near-real-time disbursements such as wages, gig earnings, emergency assistance, insurance payouts, and time-sensitive bill payments, where delays can trigger overdrafts, late fees, or reliance on high-cost alternatives. It would also facilitate payment activities where settlement finality and reliability reduce

[1] Férdeline, A., 2025, 'Are Financial Rights Human Rights?' (Interledger Foundation), https://interledger.org/news/are-financial-rights-human-rights

operational friction and, over time, enable providers to pass savings to consumers through lower fees and fewer failed transactions.

At the same time, it is also important to note that settlement access alone does not solve “last-mile” inclusion barriers such as cash-in/cash-out needs, device and connectivity constraints, accessibility for users with disabilities, or digital literacy gaps.

The Payment Account can be an important building block, but it should be understood as one component of a broader ecosystem required to deliver inclusive outcomes.

3. What barriers to innovation in payments would a Payment Account eliminate or alleviate?

In many markets, reliance on multiple intermediation layers increases cost, adds points of failure, and introduces delays that ultimately fall on consumers through fees, slower access to funds, or restrictive product design. Smaller and earlier-stage providers (who in our experience are often the providers most focused on serving low-income and/or financially excluded customers) frequently depend on a licensed banking partner to reach core payment infrastructure, which can introduce additional contractual complexity, sponsor fees, and constraints that shape what products can be offered and at what price. In parallel, obtaining a full banking license is a costly, time-intensive process that can be disproportionate to a payments-focused business model, particularly at early stages when providers are still validating whether an innovation actually improves affordability, reliability, and access for end users.

A Payment Account could alleviate these barriers by creating a more proportionate pathway for legally eligible, payments-focused institutions to access core settlement capabilities without having to replicate the full scope of a bank charter solely to clear and settle payments, and without having to rely as heavily on a bank-licensed partner as an intermediary. By aligning access more closely with functional needs and risk profile, the model could lower operating costs, reduce dependency-driven frictions, and allow new providers to validate innovations under real settlement conditions, rather than through approximations shaped by partner constraints. That said, the public interest case strengthens, and is ultimately only compelling, when these reductions in friction translate into measurable consumer outcomes, such as faster access to wages or benefits, fewer failed payments, and lower transaction costs, rather than simply shifting costs or complexity within the institutional stack.

4. Would the design of the Payment Account prototype potentially increase the range of risks to the payment system identified in the Guidelines? If so, in what ways?

The prototype reduces certain risks, particularly credit and liquidity risk to the Reserve Banks, by eliminating intraday credit and requiring prefunding supported by automated controls. However, it can increase or concentrate other risks if streamlined access is interpreted as diminished expectations. Direct settlement connectivity heightens the impact of operational disruptions, cyber incidents, misconfigurations, and third-party failures. Payments-focused models can scale quickly, and weak AML/BSA/CFT controls can lead to high-throughput misuse. In addition, faster payments can increase fraud velocity, which can amplify consumer harm if dispute resolution, error correction, and transparency are underdeveloped.

In our view, the right policy distinction is that "streamlined" should mean a faster and more transparent process, more so than a lighter standard of resilience or integrity. Protecting the payment system, and the consumers who depend on it, requires explicit, enforceable expectations for operational resilience, governance, cyber maturity, and compliance, scaled to throughput and impact.

5. What are the benefits and challenges of imposing an overnight balance limit on a Payment Account? Are there adjustments to the proposed formula for setting the balance limit that the Board should consider if it decides to establish a Payment Account?

An overnight balance limit offers clear benefits. It helps limit balance sheet effects and discourages the use of the account as a store of value rather than as a settlement tool. It also reinforces the special-purpose nature of the account and reduces incentives for disintermediation or regulatory arbitrage. These are important objectives, particularly if the Board is seeking to create a narrower pathway tailored to payments activity.

The principal challenge is that end-of-day constraints can create liquidity management cliff effects, especially on peak settlement days, during stress, or in the presence of operational disruptions. We also question whether total assets is the most meaningful primary proxy for settlement need in payments-focused models, where payments throughput and settlement patterns may better capture actual liquidity requirements. If the Board establishes a Payment Account, we encourage consideration of calibration approaches that incorporate observable payment activity and that allow tightly governed, time-limited flexibility for exceptional days, subject to enhanced oversight and monitoring. The policy aim should be to preserve the settlement-only intent without creating procyclical behaviors that could amplify stress in volatile conditions.

6. What are the benefits and drawbacks of paying no interest on overnight balances in a Payment Account?

We acknowledge that paying no interest aligns with the settlement-only purpose of the account because it reduces the incentive to use the Payment Account as an investment vehicle. The drawback is that, for providers operating on thin margins (particularly those focused on low-income customers) foregone interest can increase effective funding costs that may be passed to consumers through higher fees or less accessible product design. For access-oriented business models, even small changes in unit economics can shape whether affordable, low-balance-friendly products are viable at scale.

If the Board maintains a no-interest design, we encourage complementary measures that preserve the settlement-only intent while ensuring the net consumer impact remains positive. In particular, Payment Account holders should be eligible for zero-transaction-fee pricing (or a fee waiver) for the permitted Federal Reserve payment services used through the Payment Account, including FedNow and other applicable services, with an explicit expectation that the benefit be passed through to end users. This would help ensure that the public policy rationale for a constrained, non-interest-bearing account (i.e. reduced balance sheet incentives and limited use) does not inadvertently erode the affordability gains that are most important for low-income and financially excluded consumers.

7. How might the Federal Reserve condition access to a Payment Account on the applicant having an acceptable AML, Bank Secrecy Act (BSA) and Countering the Financing of Terrorism (CFT) compliance programs and, more generally, how can the Federal Reserve best constrain AML/BSA/CFT risks associated with a Payment Account?

We support conditioning access with accountability for AML/BSA/CFT that scales with risk and throughput, rather than a one-size-fits-all compliance posture that can unintentionally inhibit responsible market entry by smaller, access-oriented providers. In our experience supporting early-stage implementers, the most effective approach is to make expectations clear, operational, and outcomes-oriented so applicants understand what ‘acceptable’ looks like in practice and Reserve Banks can assess it consistently. That can include baseline governance and program elements, but applied in a way that is proportional to the institution’s holdings, product design, customer base, and transaction volume.

This is also an opportunity to move toward a more explicitly tiered, sandbox-like approach to market entry that preserves system integrity while recognizing that payments-focused models vary widely in scale and risk. Conditioning mechanisms could therefore emphasize measurable performance and continuous improvement (such as demonstrated control effectiveness, timely issue remediation, and willingness to undergo periodic reviews) rather than relying primarily on dense requirements that are inevitably susceptible to interpretation. Clear, standardized checklists can be preferable to legalese when they describe outcomes and operational controls in plain terms, because they reduce ambiguity for applicants and reviewers alike.

At the same time, AML/BSA/CFT expectations must be applied proportionately to avoid incentivizing indiscriminate de-risking that pushes vulnerable communities further outside the financial system. A risk-based approach that supports effective controls while encouraging transparent adverse action processes and accessible pathways for redress better aligns with both integrity and accessibility objectives. In our view, the strongest approach is one that maintains system protections while also protecting consumer agency and non-discrimination, and that enables responsible innovation to prove itself at limited scale before graduating to broader access as risk and volume increase.

8. Are there additional features or limits that the Board should consider in the design of the Payment Account prototype?

We believe the proposal would be strengthened by additional clarifications and safeguards that improve consumer outcomes while protecting the resilience and integrity of the system.

In particular, we recommend (1) explicit operational resilience expectations proportionate to systemic impact, including business continuity capabilities, cybersecurity controls, third-party risk management, and routine testing; (2) calibrated expectations for consumer protection and redress, to the extent Payment Account holders support retail-facing activity, that are aligned with baseline protections applicable to chartered banks and do not impose loss-allocation or reimbursement obligations beyond what similarly situated regulated institutions are expected to bear, recognizing that payments-focused providers often operate under tighter revenue constraints and that liability frameworks should be clear, predictable, and proportionate; (3) improved transparency and predictability of the access process, including publishing aggregate review timelines and common causes of delay or incompleteness; and (4) a periodic re-evaluation mechanism tied to changes in business model, scale, or risk profile, ensuring the account remains aligned with its limited purpose as institutions evolve.

Across these considerations, we encourage the Board to define success in outcomes terms and to promote measurement that is aligned with public value. From a financial access and health perspective, we would look for measurable improvements in consumer affordability and reliability, such as reduced average fees for common payment use cases, increased share of transactions with same-day or instant availability, and reduced failure rates that disproportionately harm low-balance households. From an access and market functioning perspective, we would look for predictable, time-bound processing of complete applications, reflected in aggregate measures such as median and 90th-percentile time-to-decision and reduced variance in outcomes driven by process opacity rather than risk. From a stability and integrity perspective, we would look for strong operational performance indicators, including incident frequency and recovery times, alongside sustained compliance performance demonstrated through timely remediation of audit findings and effective, risk-calibrated monitoring.

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In the opinion of the Interledger Foundation, the Payment Account prototype is a serious and thoughtful effort to align settlement access with risk, while enabling responsible innovation. From the perspective of the providers and implementers we support as a grantmaker, a particularly promising aspect is the potential for access to regulated settlement functionality through the Payment Account itself, rather than exclusive reliance on bank-licensed intermediaries. This approach could meaningfully reduce costs and increase reliability for consumers who can least afford friction, without compromising resilience or integrity.

We appreciate the Board's leadership and would welcome continued engagement as the Board evaluates feedback and considers next steps. Further correspondence on this matter may be directed to Ayden Férdeline, Lead Public Policy and Government Affairs, Interledger Foundation - ayden@interledger.org.

Sincerely,

Briana Marbury
President and CEO
Interledger Foundation