

# AMERICAN BANKERS ASSOCIATION, STEPHEN KENNEALLY

## Proposal and Comment Information

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

**Comment ID:** FR-2025-0083-01-C54

## Subject

Docket No. OP-1877

## Submitter Information

**Organization Name:** American Bankers Association

**Organization Type:** Organization

**Name:** Stephen Kenneally

**Submitted Date:** 02/06/2026

To whom it may concern,

Please accept the attached comments from the American Bankers Association regarding the Board of Governors Request for Information regarding Reserve Bank Payment Account Prototypes, Docket No. OP-1877.

Please contact Stephen Kenneally at (202) 663-5147 or [skenneal@aba.com](mailto:skenneal@aba.com)<mailto:skenneal@aba.com> if there are any questions or issues with the attached document.

Thank you.

Stephen Kenneally

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We are sending you this e-mail primarily for your information, to meet your needs and further our valued relationship. If you prefer not to receive any further messages from us, just reply to this e-mail and let us know. Thanks.

American Bankers Association 1333 New Hampshire Ave NW Washington DC 20036

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February 6, 2026

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)

Dear Mr. McDonough:

The American Bankers Association (ABA)<sup>1</sup> appreciates the opportunity to comment on the Board of Governors of the Federal Reserve System's Request for Information (RFI) on Payment Account prototypes. ABA's members share the Board's commitment to a safe, resilient, and innovative U.S. payments system. We commend the Board for approaching this proposal with a risk-based lens and for recognizing that full-service Master Accounts are neither necessary nor suitable for all potential applicants. Because the proposal concerns nascent access models and may extend limited Federal Reserve account services to entities with varying supervisory profiles and emerging business models, careful design and robust risk mitigants are essential to uphold the integrity of the payments system and to protect the public interest.

## **I. Overview and Executive Summary**

The Payment Account is premised on: limited functionality, no interest earned on balances, no overdrafts or daylight credit, and no access to the discount window. ABA agrees with the Board's underlying premise that this design, if implemented with additional guardrails and direct federal supervision, would provide a measured pathway for eligible institutions to engage in payment activities while preserving systemic resilience. At the same time, the diverse nature of potential applicants—including uninsured entities and firms operating under nonuniform state charters—poses unique challenges. Many such entities lack a long-run supervisory track record, are not subject to consistent federal safety-and-soundness standards and may rely on evolving statutory or regulatory regimes. These attributes argue strongly for a graduated approach that proceeds only as quickly as safety and soundness allow, and that squarely places ongoing accountability for risk management and compliance on both the applicant and, where supervisory gaps exist, on the Federal Reserve as a condition of access.

Master Account access should be limited to Tier 1 institutions that are supervised by federal banking agencies and hold federally insured deposits.

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<sup>1</sup> The American Bankers Association is the voice of the nation's \$25.1 trillion banking industry, which is composed of small, regional, and large banks that together employ approximately 2 million people, safeguard \$19.7 trillion in deposits and extend \$13.2 trillion in loans.

Accordingly, ABA recommends the following features be incorporated into the Payment Account design (i) retain all of the proposed requirements in the RFI; (ii) establish clear, transparent, and public-facing eligibility and review criteria; (iii) condition access on demonstrated competence in risk management, BSA/AML/CFT compliance, cybersecurity, and operational resilience; (iv) restrict “nesting” or de facto correspondent activities with third parties that would otherwise circumvent the Payment Account’s limitations; (v) develop and enforce meaningful exit, recovery, and resolution expectations. Where legal eligibility exists but regulatory and supervisory arrangements are insufficiently rigorous or untested, the Board should not hesitate to impose conditions, require additional assurances (such as surety bonds), or deny access where risks cannot be adequately mitigated; and (vi) all Payment Account participants be subject to direct federal banking agency supervision for compliance with requirements related to BSA/AML/CFT, sanctions, operational, and cybersecurity risk as a condition of access to the payment system.

## **II. Eligibility, Supervisory Expectations, and the Role of the Federal Reserve**

Legal eligibility under the Federal Reserve Act is a necessary condition but is not, standing alone, sufficient for access. The fact that certain entities may be legally eligible yet express concern about the timeline or outcomes associated with Master Account applications underscores the Board’s obligation to assess not only eligibility but also the underlying risk profile and the sufficiency of ongoing supervision. In several cases, potential applicants may hold state charters with nonuniform standards or limited federal oversight, which increases the importance of consistent, enforceable expectations –regardless of underlying charter type.

Accordingly, ABA recommends that the Board formally condition access on maintaining robust governance, independent risk management, internal controls, and compliance functions commensurate with the applicant’s size, complexity, and activities. These standards are critical to mitigate BSA/AML/CFT, sanctions, operational, cyber, and other risk areas. The Board should carefully evaluate the qualifications and experience of senior management and operational leaders responsible for payments processing, compliance, and cybersecurity.

The Board should require a careful review the applicant’s business model to determine its level of risk, and the expected transaction volume that will be processed. In addition, the Board should consider if the payment activity being considered for an applicant is considered “new business” for said applicant and, if so, does the applicant have sufficient experience in this space. In such instances, the Board should consider more frequent post-implementation reviews and/or a streamlined set of available functions to ensure the applicant is scaling properly. Depending on the risk profile, the Board could require annual or biennial recertification to ensure continued compliance, recognizing that recertification should be calibrated to avoid imposing unnecessary burdens on well-supervised firms.

The Board should consolidate all the requirements for these Payment Accounts in a separate Request for Proposal (RFP) that is similar to, but separate from, the Guidelines for Evaluating Account and Services Requests that was issued in August 2022. This will help to ensure that the requirements and thresholds are consistent across the Federal Reserve Banks evaluating these applications. The process to obtain a Master Account should remain rigorous and must remain separate from the Payment Account application process. Payment Account holders that wish to obtain Master Accounts should require a new application. Clearly, establishing a separate process will ensure this account aligns with the Board’s vision noted in the RFI: “A Payment

Account would be a separate and distinct type of account from a Reserve Bank master account (Master Account), which generally does not have a limit imposed on overnight balances. Any institution that satisfies the legal eligibility requirements for an account under the Federal Reserve Act would be eligible to request a Payment Account or a Master Account.” The Board should not allow any Payment Account holders to “bootstrap” themselves into a Master Account without going through a formal application process.

To receive a Master Account, the applicant should have the highest level of federal supervision, have federally insured deposits, and be classified as a Tier 1 institution as per the *Guidelines for Evaluating Account and Services Requests*.

### **III. Risk Mitigation, Phased Implementation, and Financial Assurances**

ABA supports the Payment Account’s core limitations – e.g., prefunding of all payments, prohibition on daylight overdrafts and discount window access, and the absence of interest on balances. In addition, given the uncertainties surrounding applicants’ business models and operational maturity, ABA urges the Board to adopt a “crawl, walk, run” progression for activity. At inception, the Board should set conservative daily transaction limits and increase them only after the applicant demonstrates satisfactory, compliant, and appropriately controlled performance over sustained periods. This staged approach would allow the Board to validate operational controls in real-world conditions before allowing high-volume activity.

To further align incentives, the Board should require applicants to post a surety bond or comparable financial assurance sized to their anticipated activity and risk profile. A bond calibrated to a multiple of average daily transaction volume can help protect other participants and the Federal Reserve from losses, fines, or penalties stemming from operational failures, sanctions breaches, or other compliance lapses. If, over time, an applicant demonstrates consistent compliance and resilience, the Board could reassess the bond requirement based on observed risk.

### **IV. AML/BSA/CFT, Cybersecurity, and Operational Resilience**

The payments system’s integrity depends on robust detection and prevention of illicit finance, including money laundering, terrorist financing, and sanctions evasion. ABA recommends that the Board categorically condition access on a mature and demonstrably effective AML/BSA/CFT program that includes, but is not limited to, risk-based customer due diligence, transaction monitoring, sanctions screening, investigations, reporting suspicious activity obligations, and independent testing functions staffed by qualified personnel. As noted above, applicants must be supervised and regularly examined for AML compliance by a federal banking agency.

Operational risk and cybersecurity deserve equally rigorous attention. Entities should be required to implement strong cybersecurity, information security and data protection measures, including identity and access management, IT resilience, network security, and cloud security. Payment Account holders should be required to report any compliance or cyber events to the Board. The Board should assess management qualifications, staffing adequacy, third-party risk management, and the applicant’s ability to detect, respond to, and recover from cyber incidents. Payment Account applicants should also be required to maintain credible recovery and resolution plans to ensure that, in the event of distress or failure, their activities can be wound down in an orderly manner without disrupting other participants or undermining confidence in the payments system.

In the event direct federal banking agency supervision is needed to ensure appropriate risk management and compliance, the Board should make clear that such additional supervision is tailored for Payment Account access and does not equate to prudential supervision as considered for full Master Account access.

## **V. Prohibition on Correspondent and “Nesting” Arrangements**

The RFI’s prohibition on correspondent banking activities by Payment Account holders is a critical safeguard. Extending that prohibition to “nesting” arrangements—where an applicant provides payment services to third parties that themselves offer bank-like services whether they are actual financial institutions or not—will help prevent the circumvention of the Payment Account’s limitations and ensure that risk does not reenter the payment system through an indirect channel.

ABA recommends that the Board make explicit that Payment Accounts cannot be used to process payments on behalf of third-party institutions or service providers that would effectively treat the account holder as a correspondent. This restriction should apply regardless of whether the downstream entity is legally a “bank,” because the relevant risk arises from the function performed, not the label attached.

The Board should monitor daily transaction volumes to ensure that Payment Accounts are not acting as conduits for entities that are not themselves legally eligible to maintain accounts at the Federal Reserve. Any entity that processes excessive volumes inconsistent with the scope of its business or its reserves should be subject to a review by the Federal Reserve. In addition to nesting, the Board should opine on whether a Payment Account can effectuate a payment to another Payment Account.

## **VI. Interactions with Evolving Legal and Regulatory Frameworks**

Potential applicants may engage in activities for which legislative and regulatory frameworks are still evolving. For example, stablecoin issuance and other digital asset-related activities raise questions concerning custodial practices, asset backing, segregation, redemption rights, and market conduct.

Where fundamental questions remain unresolved—such as primary supervisory responsibility or the permissible scope of activities—the Board should proceed only with heightened safeguards and retain the discretion to deny access if core risks cannot be adequately managed.

## **VII. Design Features: Payments Services, Balance Limits, and Discount Window Access**

The proposed service mix—access to Fedwire Funds Service, National Settlement Service (NSS), FedNow Service, and Fedwire Securities Service solely for free-of-payment transfers, and no access to FedACH, Check Services, or transfer-against-payment securities settlement—is intended to constrain settlement and liquidity risk for Payment Accounts. Maintaining prefunding across all channels is essential, particularly for FedNow, given its 24/7/365 operating model and the potential for instantaneous value transfer. The Board should ensure that FedNow rules and technical controls categorically prevent negative balances for Payment Account holders, thereby aligning operational mechanics with the Payment Account’s no-overdraft policy. A limited Payment Account does not need access to NSS or Fedwire Securities services. These features should be removed in the formal proposal.

Establishing an overnight balance limit with the lesser of \$500 million or 10% of assets on a Payment Account offers significant benefits for reserve management operations and risk mitigation. However, the Board should consider an activity-based formula rather than one based on total assets. The caps should be reviewed periodically to ensure the cap is appropriate to the level of risk. This approach will help maintain sufficient liquidity, reduce operational risk, and support the smooth functioning of the payment system.

The overnight balance limit based on total assets may not reflect actual payment needs, potentially leading to either excess or insufficient balances. If the cap is set too low, the result can be payment delays or failures, especially during periods of high activity. The overnight balance caps should be determined by analyzing actual payment flows, rather than total assets, however, a bright line application of \$500 million or 10% of assets should serve as any floor type of requirement until the Board can determine the appropriate cap needed to offset the risk. This approach aligns the cap with actual usage and reduces operational risk.

Any adjustments to this limit should occur through a transparent public process, and ABA recommends that adjustments default to more conservative limits rather than expansions; in particular, downward-only adjustments in the initial phase would help maintain prudential discipline.

ABA supports the prohibition on discount window access for Payment Account holders. The discount window is an essential tool of monetary policy and systemic liquidity support, and access should remain limited to institutions subject to the full complement of prudential standards, capital and liquidity oversight, and supervisory expectations.

The prohibition on discount window access should be codified in Regulation A-Extensions of Credit by Federal Reserve Banks. Regulation A established the legal framework under which Federal Reserve Banks extend credit to eligible institutions. It governs the discount window defining who may borrow, under what conditions, and at what rates. This regulation should be modified to reflect that Payment Accounts are not eligible for discount window access.<sup>2</sup>

ABA supports not paying interest on overnight balances in a Payment Account to limit risks to monetary policy implementation and systemic risks. By not paying interest and keeping the balances capped, this account will be better structured for its intended use as a Payment Account, rather for investment or overnight funding purposes. Paying interest on overnight balances would pose risks to the transmission of monetary policy and introduce systemic risks.

Interest on reserve balances (IORB) is a monetary policy tool. Unlike banks, the entities that would seek Payment Accounts do not currently play a role in transmission of monetary policy. Paying interest on these accounts would change the structure of monetary policy transmission, given Payment Account holders don't make loans or hold deposits. This could introduce challenges and complexities in implementing monetary policy. Interest bearing Payment Accounts could result in deposit outflows to nonbanks limiting bank lending capacity and potentially affecting broader monetary conditions. Other central banks have acknowledged that these entities don't play a role in the transmission of monetary policy. For example, non-bank payment service providers are not eligible to participate in the Bank of England's Sterling

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<sup>2</sup> Federal Reserve Board, Regulation A-Extensions of Credit by Federal Reserve Banks, 12 C.F.R. Part 201.

Monetary Framework or for intraday liquidity, as they do not undertake maturity transformation activities.

Paying interest could exacerbate the disintermediation of banks leading to a contraction in credit if deposits funding loans dwindle.

The prohibition of paying interest to Payment Accounts on reserve balances should be codified in Regulation D-Reserve Requirements of Depository Institutions. Regulation D implements Section 19 of the Federal Reserve Act and governs how depository institutions maintain balances at the Federal Reserve for purposes of monetary policy implementation. This includes the rules governing interest paid on balances held at Federal Reserve Banks. This regulation should be modified to reflect that Payment Accounts are not eligible to receive interest on reserve balances.<sup>3</sup>

### **VIII. Application Transparency and Process**

To foster market discipline and confidence, ABA urges the Board to enhance the transparency of the application process. Without divulging proprietary information, the Board should publish clear criteria addressing business model risk, governance expectations, AML/BSA/CFT capabilities, cybersecurity requirements, and operational readiness benchmarks. The Board should also clarify the expected timelines and decision points, and provide explanatory statements when applications are approved with conditions or denied, redacted as necessary to protect sensitive information. Although a public notice-and-comment process for individual applications could undermine timeliness, the Board could solicit public input on the general criteria and supervisory framework for Payment Accounts and then apply those standards in an even-handed manner to individual cases.

The Board should not be constrained by the 90-day limit to conduct reviews. Federal Reserve Banks should be permitted to exceed that limit if more time is required to evaluate the risks presented by a Payment Account request.

The Board should establish consistent and transparent account parameters across all Reserve Banks, articulated in Account Agreements, to set forth limitations of the accounts and any needed variations from provisions in Federal Reserve Operating Circulars.

### **IX. Enforcement and Exit**

The Board should articulate, in advance, the enforcement tools it will use to respond to deficiencies, including the ability to impose additional conditions, restrict activity, or terminate access. The Board should also make clear that Payment Account access is a privilege that can be withdrawn if an account holder fails to meet operational, risk management, or compliance expectations. To support orderly outcomes, applicants should be required to maintain credible recovery and resolution strategies proportional to their activity level and interconnectedness, with periodic testing to validate practical feasibility.

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<sup>3</sup> Federal Reserve Board, Regulation D-Reserve Requirements of Depository Institutions, 12 C.F.R. Part 204.

## **X. Responses to the Formal Questions Asked in the RFI**

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

ABA believes that the design, if implemented with additional safeguards such as heightened oversight, conservative transaction limits, and enforceable compliance standards, would allow eligible institutions to participate in the payments system at reduced risk. Prefunding, prohibition on overdrafts, no interest on overnight balances, and limited services are essential features that should remain intact.

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

The Payment Account is suitable for prefunded transfers and settlement through limited services such as Fedwire Funds and FedNow. It is not appropriate for activities requiring intraday credit, interest-bearing balances, or transfer-against-payment securities settlement. It is uncertain if granting access to NSS and Fedwire Funds Securities Services creates any value that offsets any increase in risk.

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

Innovations in payments are robust and varied. Importantly, these innovations are occurring inside and outside of the banking system without Payment Accounts. The Payment Account may reduce onboarding friction for legally eligible but non-traditional institutions by providing a clear, limited pathway to access select Federal Reserve services.

ABA regards the Master Account requirements to be essential to safeguard the payment and broader banking system.

Master Accounts should be reserved for institutions that are federally supervised and have insured deposits.

### *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?*

Without robust conditions, the Payment Account could amplify operational, compliance, and illicit finance risks.

ABA recommends strict AML/BSA/CFT requirements, operational and cybersecurity standards, and direct federal banking agency oversight to mitigate these risks.

### *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?*

ABA supports an overnight balance cap as a critical safeguard against liquidity risk and concentration, however an activity-based formula is more appropriate than an asset-based methodology to support a smooth functioning payment system and to reduce operational risks. Any adjustments should occur through a transparent public process, with a bias toward more conservative limits during initial implementation.

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

Not paying interest aligns with the Payment Account's limited purpose and discourages accumulation of large idle balances. While it may reduce attractiveness for some entrants, this outcome reinforces prudential objectives to preserve monetary policy transmission and limit systemic risks.

*7. How might the Federal Reserve condition access to a Payment Account on the applicant having an acceptable AML/BSA/CFT compliance program, and how can the Federal Reserve best constrain AML/BSA/CFT risks?*

Access should be conditioned on a mature compliance program, including but not limited to, qualified leadership, independent testing, transaction monitoring, and sanctions screening. Direct federal banking agency oversight should be required.

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

ABA recommends conservative initial transaction limits with performance-based increases, a surety bond requirement sized to transaction volume, explicit prohibition on nesting and correspondent-like services, mandatory recovery and resolution planning, and stringent operational and cyber readiness assessments.

Payment Account holders should be required to comply with Federal Reserve Operating Circulars governing electronic access and participating in each payment rail. Additionally, the account agreements they enter in with their Reserve Bank should be standardized across all Reserve Banks and contain the account parameters and limitations discussed above, as well as any variations needed from provisions in operating circulars. Entities should be required to participate in industry-wide mandatory system and operational testing, including certifying end-to-end security, and maintaining operational resiliency and business continuity plans.

Furthermore, the Federal Reserve and Federal Reserve Financial Services (FRFS) should establish flexible risk monitoring tools, including kill switches, real time monitoring of account balances and liquidity to block payments that would cause an overdraft. The Federal Reserve should develop protocols for timely communication with counterparties and customers in the event of payment system disruptions or outages related to Payment Account holders.

## Conclusion

ABA supports the Board's cautious and limited approach to Payment Account access as a prudent framework for responsible innovation. With the additional safeguards outlined in this letter—direct federal banking agency supervision, enforceable risk management and compliance standards, conservative activity limits, limits on activity on behalf of third parties, prohibitions on nesting arrangements, meaningful financial assurances, and credible recovery and resolution planning—the Payment Account can promote orderly participation by eligible institutions while preserving the safety, soundness, and integrity of the U.S. payments system. We appreciate the Board's consideration of these recommendations and stand ready to assist as the framework is refined and implemented. Please contact Stephen Kenneally at [skenneally@aba.com](mailto:skenneally@aba.com) or (202) 663-5147 with any questions.

Sincerely,



Stephen K. Kenneally  
SVP, Payments  
American Bankers Association