DAVID ZARING

Proposal and Comment Information

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

Comment ID: FR-2025-0083-01-C57

Submitter Information

Name: David Zaring

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February 6, 2026

Ms. Benjamin McDonough
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551
Request for Information and Comment on Reserve Bank Payment Account Prototype (OP-1877)

Re: Request for Information and Comment on Reserve Bank Payment Account Prototype (OP-1877)

Dear Mr. McDonough:

My perspective
I am the Elizabeth F. Putzel Professor at the Wharton School of the University of Pennsylvania.
I have written extensively on financial regulatory institutions and banking regulation, and am among the most cited active scholars in both administrative law and financial regulation. My scholarship sits at the intersection of financial regulation, international law, and domestic administration.
My recent work focuses on the regulatory perimeter and on novel charters.. In Modernizing the Bank Charter, 61 Wm. & Mary L. Rev. 1397 (2020), I examined the historical and institutional foundations of bank charters and the challenges posed by innovation-driven entrants. I have continued this line of inquiry in The Corporatist Foundations of Financial Regulation, 108 Iowa L. Rev. 1303 (2023), which analyzes the cooperative institutional architecture underlying financial regulation, and in Skinny Charters: Rebuilding the Banking Regulatory Perimeter, 50 Iowa J. Corp. L. 699 (2025), which addresses novel charters and new entrants in the banking market. My Skinny Charters paper explicitly endorses the idea of a payments charter, and I write in support of the payments charter proposal here.
I offer this perspective on my own behalf. I have no financial interest in the outcome of this matter and have not been compensated by any party for providing this comment.
The skinny payments charter is a great idea.
Governor Christopher J. Waller's October 2025 proposal for Federal Reserve "payment accounts" addresses a gap in U.S. financial regulation: how to provide payment innovators access to Federal Reserve infrastructure while managing the associated risks. I support the proposal, but note that its success will depend on implementation that balances institutional access with adequate safeguards, which, in my view, the proposal recognizes.
The proposed "payment accounts" would enable eligible institutions to access the Federal Reserve's payment rails for the specific purpose of clearing and settling payments, distinct from traditional master accounts. The contemplated restrictions include no interest on balances, no access to Fed credit, balance caps, no daylight overdraft privileges, and no discount window borrowing. Account features would be tailored to firms' operational needs and the risks they pose to the payments system and Federal Reserve Banks.
This measure is consistent with the Federal Reserve's legal authority insofar as it encompasses payments only. 12 U.S.C. § 342 provides that a Reserve Bank “may receive” deposits from member banks and “other depository institutions,” and—subject to conditions—may receive deposits for collection/exchange from nonmember banks and “other depository institutions.” Nonbanks are thus contemplated by the statute. To be sure, the Monetary Control Act requires the Board to set pricing principles for “Federal Reserve bank services to depository institutions,” and states that covered services “shall be available to nonmember depository institutions,” on the same fee schedule (subject to “other terms,” including balance requirements, that the Board may determine). The Payment Account prototype is best read as an attempt to define those “other terms” in a way tailored to payments-focused entities while preserving risk controls.

One can also see how the proposal operates well within the Federal Reserve's established statutory discretion, as reinforced by the Board's general supervisory authority under 12 U.S.C. § 248(j) and its rulemaking power under § 248(i). Whatever “shall be available” means in § 248a, the Fed is operating in a legal environment in which courts have recently endorsed Reserve Bank discretion to deny account access even to an eligible institution based on risk. The Tenth Circuit’s Custodia decision states that the “plain language” of the relevant statutes grants Reserve Banks discretion to reject master account requests from eligible entities. See Custodia Bank, Inc. v. Federal Reserve Board of Governors, No. 24-8024, slip op. at 4 (10th Cir. Oct. 31, 2025) (“We conclude the plain language of the relevant statutes grants Federal Reserve Banks discretion to reject master account access requests from eligible entities and, therefore, we reject Custodia’s attempt to impair the Fed’s ability to safeguard our nation’s financial system through the exercise of discretion to reject master account access.”).

Nor is the Fed's development of new payment infrastructure novel. The payment account represents the latest chapter in a century-long tradition of the Federal Reserve adapting its services

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[1] I want to thank Amy Chen and Ria Chinchankar for help in preparing this comment.

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Nor is the Fed's development of new payment infrastructure novel. The payment account represents the latest chapter in a century-long tradition of the Federal Reserve adapting its services to meet evolving payment needs. Since nearly its founding the Federal Reserve has continuously evolved its payment services: from running trains on steel rails to clear paper checks, to conducting interbank transfers via telegraph through Fedwire in the early twentieth century, to launching FedNow in 2023. Each of these innovations responded to technological and commercial change by designing new operational configurations within the Fed's existing statutory framework. This is precisely what the payment account does today for payment instruments.

It could also address a competitive disadvantage in U.S. financial innovation. In 2018, the U.K. led the U.S. by approximately $2 billion in fintech investment, driven largely by proactive regulatory engagement from the Financial Conduct Authority. That same year, nine of twenty-seven fintech companies valued above $1 billion were Chinese. Since then, the U.S. has become a leader in fintech investment, attracting two-thirds of all fintech funding during 2023, and some of this could be attributed to fragmented progress in the fintech regulatory landscape. States launch their own measures, such as the Florida's Office of Financial Regulation creation of a Financial Technology Sandbox Innovator, while

federal regulation remains split across the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve Board, the Office of the Comptroller of the Currency (OCC), the Federal Trade Commission, and the Consumer Financial Protection Bureau. Strengthening the U.S. regulatory landscape is critical, given that reports indicate that the Asia-Pacific as the largest fintech market by 2030, with Latin America and Africa as the fastest-growing regions. A more coherent regulatory framework for financial technology can help prevent the U.S. from being left behind.

I do mildly worry that this is the tip of an iceberg – though I do not worry too much about this. The concern appears to be that payments charters could be given to every citizen to access the Fed's payment rails, disintermediating the investment allocation function of banks, and the proposal clearly does not do that. I also understand that payment accounts are distinct from master accounts. Both may be perceived as carrying Federal Reserve endorsement, despite differing access levels and vetting standards, creating potential for consumer confusion and misplaced trust, but I view this as something that the proposal is unlikely to create, given the careful vetting that it requires before a payment account may be awarded.

Beyond risk mitigation, payment accounts offer a valuable opportunity for regulatory learning. The Federal Reserve could systematically collect data on emerging technologies, business models, and the effects of various regulatory controls. This evidence base could inform future policy development in a rapidly evolving field, ensuring that future regulation remain both effective and empirically grounded. Such evidence is needed — while there is robust evidence on the benefits to firms of related policies, impacts on entities other than the firms remain understudied.

Response to critiques of the proposal offered by other commenters

Critically, the proposal does not expand eligibility for Fed access; rather, it creates an operationally tailored account structure for institutions that must independently establish their legal eligibility under existing law. The payment account does not alter the fact-intensive, case-by-case evaluation required for account access, which is an assessment now reinforced by the GENIUS Act's rigorous liquidity and reserve requirements for payment stablecoin issuers. This approach mirrors the logic underlying limited-purpose charter frameworks, such as the OCC's special purpose national bank charter for fintech companies, which recognize that novel business models can be brought within the regulatory perimeter without requiring full-service bank status.

Concerns about AI agents in payment systems, while worthy of attention, are not unique to payment accounts; such risks would apply equally to any institution with Fed access, including traditional banks. This reality reinforces the value of a regulatory framework that brings emerging payment models under supervision, where information flows and compliance obligations can be effectively monitored.

Indeed, major financial institutions like JPMorgan are already processing tokenized transactions using existing infrastructure — they innovate within the regulatory perimeter precisely because they have Fed access. The payment account would extend similar opportunities to a broader range of legally eligible institutions, democratizing participation in payment innovation rather than concentrating it among the largest incumbents.

Payment accounts represent a workable solution for modernizing U.S. payment infrastructure without compromising Federal Reserve functions and discretion. With appropriate guardrails to prevent illicit activity, preserve financial stability and monetary policy effectiveness, protect consumers, and enable systematic learning, this proposal could meaningfully advance both innovation and regulatory sophistication in the American financial system.

Sincerely,

David Zaring

Elizabeth F. Putzel Professor

Professor of Legal Studies & Business Ethics

The Wharton School