

# DANIEL STONE

## Proposal and Comment Information

**Title:** Collection of Checks and Other Items by Federal Reserve Banks and Funds Transfers Through the Fedwire Funds Service and the FedNow Service, R-1891

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## Submitter Information

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To the Board of Governors of the Federal Reserve System:

I support the proposed amendments to Regulation J that would permit FedNow Service participants to use intermediary banks other than Federal Reserve Banks.

The proposal is a sensible and measured change. It removes a legal constraint that has limited FedNow transfers to only two U.S. depository institutions and, as the Board explains, would allow participants to use FedNow for the U.S. domestic portion of broader cross-border payment arrangements. It expands utility without altering the basic architecture of the FedNow Service or the set of entities eligible to connect to it.

The proposal is also appropriately disciplined in preserving the current funds-availability rule. The Board is not proposing to require immediate funds availability where an intermediary bank, rather than the beneficiary's bank, accepts the payment order. That distinction matters. It avoids creating the misleading impression that permitting intermediaries would itself produce end-to-end instant cross-border settlement. The proposal enables a faster U.S. domestic segment within a larger payment chain that may still involve foreign intermediaries, compliance review, foreign legal requirements, and timing differences outside the FedNow Service.

The proposal's strategic significance extends beyond removing a domestic bottleneck. It establishes a public-infrastructure anchor point around which private-sector providers can design cross-border solutions with regulatory certainty. The Board's statement that the change could support private-sector cross-border payment solutions is well taken.

While the proposal appropriately draws on the Fedwire model, the introduction of intermediaries into a real-time processing environment raises distinct operational considerations. FedNow's value proposition is near-instant processing between participants, whereas intermediary segments—particularly those supporting cross-border legs—may operate on different timing and processing assumptions. This creates a boundary condition in which payment orders may encounter delays, rejections, or exception states outside the FedNow segment, including cases where a FedNow transfer reaches finality while a downstream intermediary leg is delayed or rejected, leaving the overall payment chain incomplete. Expanding the number of entities functionally involved in a payment chain also increases dependency on intermediary processing reliability and control environments, including reliance on intermediary control environments outside the FedNow participant perimeter. These dynamics do not undermine the proposal, but they heighten the importance of clear expectations around exception handling, participant responsibilities, and user-facing transparency. Absent clear expectations in these areas, participants may face inconsistent processing outcomes and reconciliation challenges at the boundary between FedNow and intermediary segments.

For these reasons, I encourage the Board to address five areas in the final rule or related guidance.

First, the Board should clarify that the use of intermediaries does not alter compliance responsibilities of FedNow participants and does not imply end-to-end instant availability across a cross-border transaction. Participants must remain individually responsible for sanctions screening, anti-money-laundering controls, and beneficiary verification regardless of the speed of the FedNow leg.

Second, the Board should provide guidance on how exceptions, timeouts, and rejected payment orders will be managed at the boundary between the FedNow leg and intermediary-handled legs, including how payment state transitions should be treated where a payment order succeeds on the FedNow segment but encounters a rejection, delay, or timeout on the intermediary leg.

Third, the Board should clarify expectations for intermediary-dependent payment flows, including expectations for reliance on intermediary control environments outside the FedNow participant perimeter, without imposing a separate supervisory framework on intermediaries who do not connect to FedNow directly.

Fourth, the Board should encourage clear participant disclosures so originators and beneficiaries understand where the FedNow leg begins and ends, especially when a transfer includes additional intermediary steps. Transparent messaging reduces confusion about settlement finality and funds availability.

Fifth, the Board should commit to a structured review of the amendment's effects within 18 to 24 months of implementation, including whether intermediary-based use cases introduce elevated exception rates or reconciliation challenges relative to two-party FedNow transfers.

I support the proposal. It is a narrow but meaningful improvement that preserves the domestic settlement character of the FedNow Service while enabling more efficient private-sector cross-border arrangements. With targeted clarifications around operational boundaries