

# AMERICAN BANKERS ASSOCIATION, STEPHEN KENNEALLY

## 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

**Comment ID:** FR-2026-0011-01-C18

## Submitter Information

**Organization Name:** American Bankers Association

**Organization Type:** Organization

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Please accept this comment letter from the American Bankers Association.

If you have any questions, please contact Stephen Kenneally at [skenneal@aba.com](mailto:skenneal@aba.com) or

Thank you.

Stephen Kenneally

May 29, 2026

Benjamin W. McDonough  
Secretary, Board of Governors of the Federal Reserve  
20<sup>th</sup> Street and Constitution Avenue, NW  
Washington, DC 20551

Re: Docket No. R-1891 and RIN 7100-AH23, Collection of Checks and Other Items by Federal Reserve Banks and Funds Transfers Through the Fedwire Funds Service and the FedNow<sup>®</sup> Service; Regulation J

Dear Mr. McDonough:

## **I. Introduction**

The American Bankers Association<sup>1</sup> (ABA) appreciates the opportunity to comment on the Board of Governors of the Federal Reserve System's proposed amendments to Subpart C of Regulation J, codified at 12 C.F.R. Part 210, which governs funds transfers through the Fedwire<sup>®</sup> Funds Service (Fedwire) and the FedNow<sup>®</sup> Service (FedNow). The proposed rule, published in the Federal Register on April 10, 2026, would permit FedNow participants to use intermediaries—other than Federal Reserve Banks—to send funds transfers through FedNow. See Collection of Checks and Other Items by Federal Reserve Banks and Funds Transfers Through the Fedwire<sup>®</sup> Funds Service and the FedNow<sup>®</sup> Service.

Banks generally support responsible efforts by the Federal Reserve to enhance FedNow and to enhance its usefulness for the broader banking system. Banks see value in aligning parts of FedNow's legal framework with established Fedwire practices when it supports safety and soundness. At the same time, because FedNow operates as a real-time, continuously available, irrevocable settlement service, any expansion of permissible access models must be accompanied by clearly articulated regulatory safeguards.

## **II. Sanctions Screening Requirements**

Banks agree that permitting the limited use of intermediaries may support certain additional use cases, including facilitating the domestic leg of a cross-border payment and enabling correspondent banking relationships to function more efficiently in a real-time environment. The Board's discussion in the preamble properly recognizes that Fedwire has long permitted intermediated payments under Regulation J without compromising settlement finality or the Reserve Banks' risk posture.

However, banks emphasize that FedNow differs materially from legacy payment systems in its continuous operation, immediate finality, and heightened fraud exposure. Accordingly, any authorization of intermediary use within FedNow must be narrowly constructed and paired with

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<sup>1</sup> The American Bankers Association is the voice of the nation's \$25.3 trillion banking industry, which is composed of small, regional and large banks that together employ over 2 million people, safeguard \$20.1 trillion in deposits and extend \$13.5 trillion in loans.

an ambiguous allocation of rights, responsibilities, and liabilities among all parties to a transaction.

The framework should also preserve robust AML/KYC standards to make certain that the introduction of intermediary banks into a FedNow transaction for crossborder payments does not compromise compliance, transparency, or trust in the payment system. We have concerns about incoming payments that originate at a foreign institution and are completed via FedNow from the intermediary bank to the beneficiary bank. In these situations, the intermediary bank and beneficiary bank must not be penalized if its sanctions screening process causes a delay in crediting the recipient account per FedNow requirements. Banks must comply with all applicable U.S. sanctions requirements, and many banks have additional internal sanctions watch lists as part of their in-house risk-based compliance programs. Different banks will have different policies and procedures, and some may take more time than others.

The same concerns apply to outgoing payments where the parties to the FedNow portion of the payment stream, the originating bank and the intermediary bank must meet sanctions screening requirements. And, as with incoming payments, these outgoing payments will all need to meet the required sanctions screening in addition to whatever bank specific requirements must be met.

ABA strongly supports the Federal Reserve's efforts to modernize the U.S. payment system and facilitate broader adoption of instant payments through FedNow. However, the proposal raises a critical policy issue: the need to reconcile expectations for immediate funds availability with banks' non-discretionary legal obligations to comply with U.S. sanctions, anti-money laundering (AML), and other financial integrity requirements. Complying with sanctions screening requirements within FedNow's requirement to make funds available within five seconds creates a conflict. This may lead to banks automatically responding to incoming cross-border FedNow transactions with the message of "accepting without posting" instead of a "yes" or "no" response. Defaulting to the alternative may lead to a backlog of transactions under review at an institution or it could provide an institution with enough time to complete a review promptly and move the payment forward in a timely manner. It will depend on the resources at the institution and the volume of transactions.

FedNow's 24x7x365 availability is a key advantage, but it also creates challenges for cross-border sanctions screening. Banks that originate cross-border wires typically rely on screening processes built around a five-day business week. Under this proposal, however, the FedNow leg of those transactions could require sanctions screening at all hours. As a result, banks would need to adapt their review processes and devote additional time and resources to compliance. This will be a substantial change from the current Fedwire review process.

ABA recommends that the Board establish a clear safe harbor prioritizing sanctions compliance and financial integrity over immediate funds availability where appropriate in Regulation J and Operating Circular 8. To address this conflict, ABA urges the Board to adopt a clear and explicit safe harbor providing that:

- A bank may opt out of receiving cross-border FedNow transactions if its real time sanctions screening processes cannot render a “yes” or “no” answer within the time requirements.
- A bank can use the “accept without posting” response to postpone crediting FedNow funds to allow for for a reasonable time to perform sanctions checks, fraud screening, or other required reviews that cannot be completed in real time.
- Such delay shall not constitute a violation of Regulation J or any applicable Operating Circular requirement; and
- A bank acting in good faith to comply with applicable legal or regulatory obligations shall not be subject to penalties, fees, liability, or adverse supervisory action.

ABA recommends the Board add language to Regulation J that closely follows this wording:

- “An institution’s obligation to comply with applicable legal and regulatory requirements, including sanctions, anti-money laundering, and fraud prevention laws, shall take precedence over any requirement to provide immediate or near-immediate funds availability. An institution may delay, reject, block, or otherwise restrict a transaction for a reasonable period necessary to conduct such compliance reviews without incurring liability, penalties, or supervisory criticism, provided the institution acts in good faith and in accordance with risk-based policies and procedures. Alternatively, an institution may opt out of receiving cross-border FedNow payments until it is able to conduct real time sanctions screening reviews.”

### **III. Intermediaries Must Be Fully Chartered Financial Institutions with Direct Master Account Access**

Banks strongly urge the Board to clarify in the final rule that only fully chartered and prudentially supervised depository institutions with full, direct master account access may serve as the originator and the intermediary for FedNow transactions in the United States. Similarly, for transactions where the second leg is conducted via FedNow, the intermediary bank and the beneficiary bank should likewise be fully chartered with direct master account access.

At a minimum, any party to a FedNow transaction for these purposes should be required to:

- Be chartered as a bank or credit union under federal or state law;
- Be subject to comprehensive, ongoing supervision by a federal banking agency;
- Comply with capital, liquidity, risk-management, consumer protection, and compliance requirements comparable to those applicable to FedNow participants; and
- Maintain a full, direct master account at a Federal Reserve Bank, without material restrictions on payment activity.

Ensuring that entities involved in FedNow transactions maintain full master accounts is crucial for maintaining the integrity, enforceability, and effective risk management of FedNow. Direct master account access enables the Federal Reserve to apply Regulation J obligations consistently, conduct effective supervision, and manage operational, credit, liquidity, and

settlement risks in a real-time environment. It also ensures clear accountability among parties and avoids fragmented or opaque payment flows that could undermine confidence in the service.

Banks caution strongly against permitting entities with restricted master accounts, nested arrangements, or pass-through access to act as intermediaries. Entities operating under limited-purpose charters or restricted account frameworks are not subject to the same scope or intensity of prudential supervision as traditional depository institutions and therefore pose elevated operational, liquidity, compliance, and fraud risks—risks that are magnified in a 24x7x365, irrevocable settlement system such as FedNow.

Allowing such entities to function as intermediaries would create regulatory arbitrage, dilute accountability, and introduce supervisory gaps inconsistent with the Federal Reserve’s role as operator of systemically important payment infrastructure. It would also weaken the long-standing linkage between access to Federal Reserve payment services and the comprehensive regulatory framework established under the Federal Reserve Act and Regulation J.

- ABA recommends the Board make explicit in the final rule or accompanying guidance that:
- Only fully regulated depository institutions as described earlier in this section may serve as originators or receivers of FedNow intermediaries; and
- Entities with restricted, conditional, or special-purpose master accounts are not eligible to participate in FedNow transactions that include an intermediary.

#### **IV. Conclusion**

Banks support carefully calibrated enhancements to the FedNow Service that increase its utility while preserving safety and soundness. Institutions’ ability to meet these requirements immediately will vary based on their resources and operational capabilities, and the Board should account for that variation. We urge the Board to adopt the proposed amendments only with clear limits requiring that intermediaries in these transactions be fully regulated depository institutions with direct master account access.

We would be interested in how implementing this proposal would affect the Board’s compliance with the Monetary Control Act of 1980 that requires costs to be recovered over the long run. Has the Board considered whether higher transaction volumes could be balanced out by increased operating costs for risk monitoring or exception handling?

Please contact the undersigned at (202) 663-5147 if you should have any questions regarding this submission.

Respectfully submitted,



Stephen K. Kenneally  
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American Bankers Association