

THE CLEARING HOUSE ASSOCIATION AND THE BANK POLICY INSTITUTE, RODNEY ABELE, ET. AL.

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-C28

Submitter Information

Organization Name: The Clearing House Association and the Bank Policy Institute

Organization Type: Organization

Name: Rodney Abele, et. al.

Submitted Date: 06/09/2026

Attached, please find the comments of The Clearing House Association and the Bank Policy Institute.

June 9, 2026

Via electronic submission

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

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

Dear Mr. McDonough,

The Clearing House Association¹ and the Bank Policy Institute² (“Associations”) appreciate the opportunity to respond to the proposed rule and request for comment (“Proposal”) on amendments to subpart C of Regulation J (governing the FedNow® Service) issued by the Board of Governors of the Federal Reserve System (“Board”).³ The Associations support the objectives of the Proposal to expand the use of always-on payments rails for cross-border payments and the resiliency benefits of enabling additional payment services to settle the U.S. legs of cross-border funds transfers.

While we generally support the Proposal, we make recommendations below to ensure that it can be successfully implemented by participating depository institutions. Among other recommendations, we first note that we expect FedNow participants would need to implement real-time sanctions screening of FedNow payment messages that facilitate cross-border transactions in order to comply with their sanctions obligations.⁴ To aid in the identification of

-
- ¹ The Clearing House Association L.L.C., the country’s oldest banking trade association, is a nonpartisan organization that provides informed advocacy and thought leadership on critical payments-related issues. Its sister company, The Clearing House Payments Company L.L.C., owns and operates core payments system infrastructure in the United States, clearing and settling more than \$2 trillion every business day.
- ² The Bank Policy Institute is a nonpartisan public policy, research and advocacy group that represents universal banks, regional banks, and the major foreign banks doing business in the United States. BPI produces academic research and analysis on regulatory and monetary policy topics, analyzes and comments on proposed regulations, and represents the financial services industry with respect to cybersecurity, fraud, and other information security issues.
- ³ Board of Governors of the Federal Reserve System, *Collection of Checks and Other Items by Federal Reserve Banks and Funds Transfers Through the Fedwire Funds Service and the FedNow Service; Regulation J*, 91 Fed. Reg. 18330 (Apr. 10, 2026).
- ⁴ “The Federal Reserve Banks do not require real-time transaction screening in their terms....” Federal Reserve Financial Services, *FedNow® Service Operating Procedures*, Version 3.6, (April 2026), fn. 3, at 8,

cross-border payments, we suggest the Board and Federal Reserve Financial Services (FRFS) consider a specific FedNow message code to designate cross-border transactions.

Second, as participating depository institutions may need time to develop the technological capabilities to implement real-time sanctions screening of FedNow payment messages, we recommend a two-phase implementation plan. During an initial pilot period, depository institutions should have the ability to opt-in to receiving and sending cross-border transactions over FedNow. Later, depending on industry readiness and the results of the pilot period, all FedNow participants could be required to accept cross-border transactions. A two-phase implementation plan will speed innovative use cases to market while allowing depository institutions with a strong domestic focus sufficient time to upgrade their capabilities.

Third, to support banks' ability to use real-time screening processes, we request that the Board and FRFS work with industry to consider whether adjustments to the FedNow message response requirements and timeframes under Operating Circular 8 and the FedNow® Service Operating Procedures are appropriate.⁵ Indeed, we believe additional changes to these documents will be necessary to enable the functionality described by the Proposal while still allowing FedNow participants to comply with their sanctions obligations. Forthcoming modifications to Operating Circular 8 and the FedNow® Service Operating Procedures should include amendments to clarify when the FedNow rulesets begin to apply, and stop applying, to transactions executed over multiple payment rails, and we respectfully request that the industry be provided a meaningful opportunity to review and comment on any such modifications and amendments.

I. Background

The Associations support continued efforts to modernize the U.S. payments system and promote the availability of safe, efficient, and resilient payment capabilities for consumers, businesses, and financial institutions. The development of instant payment infrastructure in the United States, including The Clearing House's RTP® Network and the FedNow Service, represents an important advancement in the evolution of the nation's payment systems to improve the speed, transparency, and accessibility of payments.

The Associations also support efforts to enhance the availability of cross-border payment options that leverage always-on payment rails and improve the resiliency of cross-border payment arrangements. In that regard, the Proposal represents a positive step toward enabling additional payment services to settle the U.S. domestic legs of cross-border transactions over modern payment infrastructure by permitting the use of intermediaries that are not Federal Reserve Banks.⁶ We believe these changes could enhance competition, support innovation, and further the shared objective of improving the speed and efficiency of cross-border payments, consistent with the

available at: <https://www.frbservices.org/binaries/content/assets/crsocms/resources/rules-regulations/042826-fednow-service-operating-procedures.pdf>.

⁵ Federal Reserve Banks, *Operating Circular 8, Funds Transfers Through the FedNow® Service*, (April 1, 2026) available at: <https://www.frbservices.org/binaries/content/assets/crsocms/resources/rules-regulations/040126-operating-circular-8.pdf>. *FedNow® Service Operating Procedures*, *supra* note 4.

⁶ We note, however, that the proposed amendments to Regulation J may also permit the use of intermediaries for domestic payments. We look forward to discussing this opportunity and its potential implications further with the Board.

G20's priority of enhancing cross-border payments, including through improvements to speed, cost, transparency, and access.

At the same time, because FedNow transactions settle in real time and are generally irrevocable once processed, it is important that the legal and operational framework governing these transactions appropriately account for financial institutions' obligations under U.S. sanctions laws and related compliance requirements, including those acknowledged in the FedNow® Service Operating Procedures and Operating Circular 8.⁷ While the proposed amendments raise similar money laundering and sanctions evasion risks to the use of intermediaries in the Fedwire Funds Service, the real-time nature of FedNow transactions constitutes a material change to a participant's compliance burden. As discussed below, implementation of the Proposal raises important operational and compliance considerations for participating depository institutions, including the need for technological capabilities that support effective sanctions screening within the FedNow processing environment.

II. Responding to Payment Messages: The Proposal Must be Considered within the Context of FedNow's Immediate Funds Availability Requirement

The proposed changes to Regulation J should be considered within the context of other requirements applicable to FedNow service participants set forth in Operating Circular 8 and the FedNow Service Operating Procedures. Regulation J permits a beneficiary's bank (FedNow receiving bank) that has reasonable cause to believe that the beneficiary of a FedNow payment order is not entitled or permitted to receive payment to notify its Federal Reserve Bank that it requires additional time to determine whether to accept the payment order. From an operational perspective, this Regulation J provision is implemented through requirements to respond to FedNow messages under Operating Circular 8, and to do so under the timeframe set forth in the FedNow Service Operating Procedures.

Specifically, under the current FedNow Service Operating Procedures, all payment messages are subject to the FedNow Service payment timeout clock.⁸ Receiving banks have up to five seconds to return one of three payment status responses: accept, reject, or accept without posting.⁹ The FedNow service will reject the payment message if 20 seconds expire before the receiving bank responds.¹⁰

As the Operating Procedures recognize, if a receiving bank's screening software generates a match that could indicate the identified recipient is not entitled or permitted to receive the payment, the bank may respond with "accept without posting."¹¹ Although the funds will settle through a credit to the receiving bank's Federal Reserve master account, the receiving bank is relieved of its obligation under Regulation J to make funds immediately available to its customer. The receiving bank has until midnight Eastern Time of the next business day¹² to reject the payment (and return funds) or make funds available to the receiver, "unless the [p]articipant continues to be concerned that the recipient is not entitled to receive the payment and taking either action would

⁷ See, for example, *FedNow Service Operating Procedures*, at 8.

⁸ *FedNow Service Operating Procedures*, at 78.

⁹ *Id.*

¹⁰ *FedNow Service Operating Procedures*, at 79.

¹¹ *Id.*

¹² The term "next business day" excludes weekend days and holidays.

be impermissible under applicable law.”¹³ Where that is the case, the receiving bank must return a pending status message indicating that the transaction requires further investigation and, upon completion of its investigation, return a final status message.

III. Application to Inbound International Payments

The Proposal contemplates that the FedNow Service could process the U.S. domestic legs of both inbound and outbound cross-border transactions. In the case of an inbound transaction involving a U.S. correspondent bank¹⁴ acting as an intermediary bank, both the U.S. intermediary and the U.S. beneficiary’s bank may screen the payment order for compliance with U.S. sanctions and other laws against both public sanctions lists and internal watchlists.¹⁵ We propose several changes to the Proposal to ensure participating depository institutions can conduct this screening in this context.

1. The FedNow ruleset should not apply until after the receiving bank has an opportunity to conduct sanctions screening

In the case of an inbound cross-border transaction, we assume that the correspondent/intermediary bank will receive the payment order over an international messaging network that is not the FedNow Service. We request that the Board and FRFS confirm that the FedNow ruleset does not apply, and a FedNow transaction has not been initiated, until the correspondent/intermediary bank conducts its sanctions screening and sends an instant payment message over the FedNow Service.¹⁶ This clarification is critical given that upon receipt of the FedNow message, the beneficiary bank will be required to return one of the three payment status responses within five seconds: accept, reject, or accept without posting.¹⁷ Although a FedNow receiving bank may use the accept without posting response if it needs additional time to investigate a potential sanctions hit, we believe that many FedNow participants have not yet implemented real-time sanctions screening in order to appropriately respond with an accept without posting message within the current five second timeframe.¹⁸

2. Participating depository institutions should be permitted to opt-in to processing cross-border transactions

As drafted, the Proposal would not provide a mechanism for FedNow participants to avoid receiving cross-border transactions. We encourage the Board and FRFS to engage with industry on its readiness to implement real-time screening on FedNow transactions and recommend the adoption of a two-phase implementation plan. We recommend that participating depository institutions have the option to opt-in to processing cross-border transactions over FedNow during

¹³ *FedNow Service Operating Procedures*, at 73.

¹⁴ For purposes of these examples, we are not referring to the Federal Reserve Banks.

¹⁵ FedNow participants must maintain “Reasonable procedures for screening customer information against current sanction lists and updated lists to the extent customers might be a party to a FedNow Service transaction.” *FedNow® Service Operating Procedures*, at 8.

¹⁶ Such as a Customer Credit Transfer message (pacs.008).

¹⁷ *FedNow Service Operating Procedures*, at 79.

¹⁸ “The Federal Reserve Banks do not require real-time transaction screening in their terms, but a FedNow receiver that conducts such screening under its compliance program may use the accept-without-posting feature (ACWP) to facilitate its compliance processes.” *FedNow® Service Operating Procedures*, fn. 3, at 8.

an initial pilot period, as many depository institutions may need time to develop the technological capabilities to implement real-time sanctions screening of FedNow payment messages. Later, depending on industry readiness and the results of the pilot period, all FedNow participants could be required to accept cross-border transactions. In the alternative, the Board and FRFS should plan for an effective date of the final rule that will permit all FedNow participants to implement real-time screening.

3. The Federal Reserve should consider adjusting the FedNow message response timeframe and payment timeout clock for cross-border transactions

If bound by the required five second response timeframe, some beneficiary banks may be inclined to reply “accept without posting” to every cross-border payment.¹⁹ We believe this result would be inconsistent with the Board’s stated goal of “improving the speed and efficiency of cross-border payments”²⁰ and may be deemed an improperly broad use of the accept without posting response.²¹

Instead, it may be appropriate to adjust the FedNow message response timeframe and payment timeout clock for cross-border transactions. If these timing adjustments are implemented and banks are given sufficient implementation time, we believe that receiving banks could conduct an initial real-time screening of a received payment message, clear the majority of transactions, identify potential sanctions hits that require additional time to review, and appropriately respond with an accept without posting message. This would be preferable to an overly-broad use of the “accept without posting” response for all FedNow payment messages facilitating cross-border transactions.

4. The Federal Reserve should use a specific message code to designate cross-border transactions

We also suggest that a specific FedNow message code could be used to designate cross-border transactions, which could inform a FedNow participant’s approach to sanctions screening of a received payment message and signal the application of an extended payment timeout clock for these transactions.

IV. Application to Outbound International Payments: The Federal Reserve should clarify when the FedNow ruleset applies and adopt the response timeframe modifications described above

Similarly, the FedNow Service could be used for an outbound cross-border transaction, where a sending bank transmits a payment over the FedNow service to a U.S. intermediary/receiving bank that maintains a correspondent relationship with a foreign beneficiary

¹⁹ Participants using the ACWP response must reject the transaction (and return funds) or make funds available to the intended recipient by midnight Eastern Time of the next standard business day, “unless the [p]articipant continues to be concerned that the recipient is not entitled to receive the payment and taking either action would be impermissible under applicable law.” *FedNow Service Operating Procedures*, at 73.

²⁰ 91 Fed. Reg. at 18331.

²¹ “If a Participant’s screening software generates a match that could indicate the identified recipient is not entitled or permitted to receive the payment, the Participant may respond with an Accept Without Posting (ACWP) transaction in response to a request for confirmation of the credit transfer message (pacs.008/004).” *FedNow Service Operating Procedures*, at 79.

bank that holds an account for the beneficiary. In this scenario, we expect the U.S. intermediary/receiving bank would conduct sanctions screening on the FedNow payment order prior to transmitting the payment order to the foreign beneficiary bank over an international messaging network that is not the FedNow Service. We request that the Board and FRFS confirm that the FedNow ruleset would no longer apply once the intermediary/receiving bank returns a final FedNow status message of either accept or reject.

With respect to the domestic FedNow leg of the transaction, we believe, however, that the intermediary/receiving bank should be expected to meet an appropriate response time for receiving banks under the FedNow Service Operating Procedures. For the reasons described above with regard to inbound transactions, we ask the Board and FRFS to consider whether modifications to the message response timeframes and payment timeout clock are appropriate for outbound cross-border transactions.

V. Conclusion

The Associations appreciate the Board's consideration of these comments and support the Proposal's broader objective of facilitating the use of modern payment infrastructure to support cross-border payments. We encourage the Board and FRFS to continue engaging with industry regarding the operational and compliance implications of the Proposal, including the implementation of real-time sanctions screening capabilities and potential modifications to Operating Circular 8 and the FedNow Service Operating Procedures. Providing participating depository institutions sufficient implementation flexibility and an opportunity to review and comment on related operational changes will help promote the safe, efficient, and resilient adoption of cross-border payment functionality over the FedNow Service. If you have any questions, please contact us at rodney.abele@theclearinghouse.org or paige.paridon@bpi.com.

Respectfully submitted,

/s/
Rodney Abele
SVP, Associate General Counsel and
Director of Regulatory & Legislative Affairs
The Clearing House Association

/s/
Paige Pidano Paridon
Executive Vice President &
Co-Head of Regulatory Affairs
The Bank Policy Institute