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Proposed Revisions to the Federal Reserve Policy on Payment System Risk and the Guidelines for Account and Service Requests [Docket No. OP-1878]

July 27, 2026

Mr. Benjamin W. McDonough
Secretary
Board of Governors of the Federal Reserve System

By email: publiccomments@frb.gov

INSTITUTE OF INTERNATIONAL FINANCE

Dear Secretary McDonough,

Proposed Revisions to the Federal Reserve Policy on Payment System Risk and the Guidelines for Account and Service Requests [Docket No. OP-1878]

The Institute of International Finance (IIF) appreciates the opportunity to comment on the Board of Governors of the Federal Reserve System's (Board) Notice and Request for Comment (RFC) published on May 26, 2026. The IIF brings a global perspective as it represents approximately 400 globally active financial institutions from over 60 geographies. Our membership spans banking, insurance, securities, asset management, payments, and related sectors, including firms active in digital asset markets and stablecoin issuance. We welcome the Board's efforts to establish the proposed Payment Account ("Payment Account") and a broader framework for limited-purpose access to Federal Reserve payment services by eligible institutions.

The goal of this IIF response (**Consultation 1**) is to help the Board finalize the *Payment System Risk Policy's (PSR Policy) proposed core operational framework* in a manner that supports the Payment Account's limited purpose while advancing payment innovation, settlement efficiency, operational resilience, and safeguarding financial stability, monetary policy implementation, and the integrity of the U.S. payment system. Drawing on members' practical experience, we offer targeted recommendations on implementation and risk management to support those objectives. The IIF is responding under separate letters to the Board's notice of proposed rulemaking (NPRM) on Regulation A: Extensions of Credit by Federal Reserve Banks [Docket No. R-1892],[1] and the NPRM on Regulation D: Reserve Requirements of Depository Institutions [Docket No. R-1893].[2]

The IIF and its members appreciate that the Board's RFC and two NPRMs reflect several recommendations raised in the IIF's February 2026 response to the Board's December 2025 request for information (RFI). In particular, members welcome the proposal's recognition that the Payment Account should function as a standardized, limited-purpose, risk-mitigated framework, supported by standardized terms designed to reduce residual risk and support a more streamlined review process.

Key Findings

Please see our members' responses to your questions in **Annex 1**. The IIF's comments are organized according to the seven question areas outlined in the RFC.

IIF members' key points include:

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[1] Regulation A: Extensions of Credit by Federal Reserve Banks, 91 Fed. Reg. 30,498 (May 26, 2026) (**Consultation 2**).
[2] Regulation D: Reserve Requirements of Depository Institutions, 91 Fed. Reg. 30,503 (May 26, 2026) (**Consultation 3**).

- **Preserve the framework's integrity.** The limited-purpose nature of the Payment Account should be protected through clear boundaries and rigorous review, including addressing potential differences between state and federal BSA/AML oversight, cybersecurity, and operational risks. IIF members support restrictions that prevent Payment Accounts from evolving into indirect access channels or more complex settlement arrangements, including the proposed prohibition on OC 1 correspondent and respondent roles as the baseline. Members emphasize that access decisions should remain grounded in safety and soundness, supervisory comparability, and demonstrated regulatory performance rather than speed.
- **Balance flexibility with consistency and transparency.** IIF members suggest the Board preserve flexibility while anchoring the framework with clear guardrails. Members support retaining operational calibration tools in the PSR Policy while codifying the Closing Balance Limit in Regulation D so the Board can adapt the framework as it gains experience. They also recommend clearer baseline requirements where consistency is critical, particularly for illicit finance controls applicable to non-federally insured institutions. The framework should be iterative, but not so discretionary that it creates opacity or inconsistent application across Reserve Banks.
- **Ensure transparency, not structural overhaul.** The tiering framework is sound, but the process needs better transparency and consistency. Members do not suggest fundamental changes to the three-tier framework, which appropriately reflects differences in supervisory regimes and risk. Instead, they recommend process improvements such as standardized documentation checklists, more consistent illicit finance expectations, publication of summary statistics on outcomes and timelines, and review timelines that promote accountability and predictability without creating pressure to approve access prematurely.
- **Second-order effects warrant monitoring.** Residual risks remain under-analyzed and will require monitoring and possible recalibration. Members identify a set of second-order effects that the proposal does not fully resolve, including end-of-day "cliff effects," weekend and holiday liquidity constraints, new funding interdependencies with commercial bank counterparties, and procyclical balance-building during stress. Members support a measured rollout, strong monitoring, and a willingness to revisit design choices as operational experience develops.
- **Updated framework reflects meaningful improvements.** Members generally support the updated Payment Account framework because it reflects changes responsive to prior IIF comments, including the shift to an activity-based Closing Balance Limit. The changes make the framework more usable for core payment activity while preserving its limited-purpose design.

Further engagement

The IIF and its members stand ready to engage in additional discussions and consultations on these topics, or to clarify any aspect of our submission. We thank you again for the opportunity to contribute to this important RFC.

Yours sincerely,



Jessica Renier
Managing Director, Digital Finance

Annex 1

Answers to RFC Questions

1. Would the updated design support eligible institutions' payment activity and be an attractive account option?

IIF members are generally supportive of the updated design that reflects public input from the December 2025 RFI. The Board's responsiveness to commenter feedback, particularly on the Closing Balance Limit methodology, has enhanced the Payment Account's utility and attractiveness. Members recommend that the Board commit to a periodic review of the Payment Account's terms as the framework matures.

Improved design. IIF members appreciate the Board's consideration of the 72 comment letters received in response to the December 2025 RFI,[3] including the IIF's February 2026 submission.[4] Changes between the RFI's prototype and the May 2026 proposal directly addressed several concerns raised by the IIF and enhance the Payment Account's utility. These updates include:

- **Activity-based Closing Balance Limit.** The shift from an asset-based formula (lesser of $500 million or 10% of total assets) to an activity-based methodology tied to expected payment flows is a significant improvement. As IIF members suggested in the February 2026 response, the asset-based formula "may not reflect actual payment needs" for institutions with high payment volumes but smaller balance sheets. The Board adopted an activity-based approach, and the May 2026 Board Staff Memo acknowledges that this change was made "based on input from commenters and further staff consideration."[5] This ensures that the Closing Balance Limit is calibrated to what the Payment Account is designed to do – clear and settle payments. Additionally, the maximum closing limit should be periodically updated to reflect actual Payment Account activity as opposed to Master Account activity.

- **No intraday balance limit.** The December 2025 RFI did not explicitly address intraday balances. The IIF's February 2026 response raised concerns about "intraday liquidity pressures, procyclical behavior during stress events, and operational 'cliff effects'" that could result from ambiguity about intraday constraints. The May 2026 proposal clarifies that Payment Account holders may maintain unlimited balances during the business day, subject to the Closing Balance Limit at the Federal Reserve's close of business. This will permit Payment Account holders to process larger payment volumes throughout the day without artificial constraints.

- **Temporary Closing Amount.** Permitting Reserve Banks to temporarily allow a Payment Account holder to exceed its Closing Balance Limit in unusual circumstances could provide flexibility for operational contingencies, holiday periods, and other exceptional events. The proposal's requirement to consult the Board for excesses of the proposed cap, or lasting two or more business days, adds the needed oversight mechanism for larger or more prolonged deviations. The IIF's February 2026 response recommended "clear criteria for adjusting balance caps" and "flexibility, including around events such as holidays and quarter ends." This mechanism directly addresses the IIF's recommendation.

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[3] Request for Information and Comment on Reserve Bank Payment Account Prototype, 90 Fed. Reg. 60,096 (Dec. 23, 2025) (**December 2025 RFI**).
[4] *See* IIF Response to the Fed. Rsrv. Sys. Request for Information and Comment on Reserve Bank Payment Account Prototype [Docket No. 1877] (Feb. 9, 2026).
[5] Bd. of Governors of the Fed. Rsrv. Sys., *Staff Memorandum: Requests for Comment on Proposed Establishment of a Payment Account*, at 12 (May 7, 2026) (**Board Staff Memo**).

Supports core payment use cases. IIF members believe the updated design would support core payment activities, including:

- **Customer-initiated payments.** Payment Account holders could use the Fedwire Funds Service and FedNow Service to process customer-initiated credit transfers, including both high-value wholesale payments (via Fedwire) and real-time retail payments (via FedNow). The prefunded model and automated overdraft rejection ensure that these services operate within the Payment Account's risk parameters.

- **Cross-border payment settlement.** In some instances, with access to Federal Reserve payment rails, the Payment Account could support certain use cases, including the U.S. dollar leg of cross-border payment transactions which is consistent with the G20 Roadmap priorities.[6] Direct Reserve Bank access could reduce the number of intermediaries in the cross-border payment chain, potentially improving speed, transparency, and cost. See Response to Question # 5 on Cross-border considerations.

- **Clearing and settlement.** Payment Account holders that participate in private-sector payment networks could clear and settle net positions, supporting the development of new payment platforms and arrangements.[7] IIF members recommend that any extension of clearing and settlement access to Payment Account holders be paired with clear expectations that transaction-level illicit-finance monitoring remains the responsibility of the underlying network and its participants, consistent with the illicit-finance principle in the Guidelines for Evaluating Account and Services Requests (Account Access Guidelines).[8]

An attractive option. IIF members believe the Payment Account will be an attractive option for a meaningful class of eligible institutions. For Tier 2 and Tier 3 institutions, a Master Account request entails a lengthy, uncertain, and resource-intensive review process. The Payment Account offers a streamlined review with standardized terms that provide clarity about what is expected and what is available. For institutions whose payment needs can be met within the Payment Account's parameters, this represents a significantly more attractive pathway to Reserve Bank access, while limiting risks.

Recommendation. IIF members generally view the updated design as a well-calibrated balance between supporting eligible institutions' payment activities and managing the risks identified in the Account Access Guidelines. The shift to an activity-based Closing Balance Limit, no intraday balance limit, and the Temporary Closing Amount mechanism collectively transform the Payment Account into a credible and attractive option for institutions focused on payments innovation.

2. The Board is proposing to establish the Closing Balance Limit in a new Part IV of PSR Policy.

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[6] Fin. Stability Bd., G20 Roadmap for Enhancing Cross-border Payments: Consolidated Report for 2025 (Oct. 9, 2025) (assessing global progress toward faster, cheaper, more transparent, and more inclusive cross-border payments, along with implementation and coordination gaps).

[7] Proposed Revisions to the Federal Reserve Policy on Payment System Risk and the Guidelines for Account and Services Requests, 91 Fed. Reg. 30,627, 30641 n. 66 (May 26, 2026) (**PSR Policy**) (because multilateral net settlement mechanisms settle only the net positions submitted by a settlement agent, the Reserve Banks would see the resulting net settlement outcome rather than the underlying originators, beneficiaries, or payment purposes that are visible on transaction-by-transaction rails such as the Fedwire Funds Service and the FedNow Service).

[8] Bd. of Governors of the Fed. Rsrv. Sys., Guidelines for Evaluating Account and Services Requests, 87 Fed. Reg. 51,099 (Aug. 19, 2022) (among a list of six principles, Principle 5 seeks to ensure that Federal Reserve accounts and services do not create illicit finance risks).

a. Given that paying zero interest and limiting closing balances on Payment Accounts both serve a similar function and have important interactions, should the Board consider codifying the Closing Balance Limit in Regulation D? Why or why not?

IIF members recommend a hybrid approach in which the Board codifies the requirement for the Closing Balance Limit in Regulation D while keeping the operational elements in the PSR Policy (as addressed in our Response to **Consultation 3** Question # 3a).

Regulatory flexibility. The Closing Balance Limit is a calibration tool, not a structural prohibition. Unlike zero interest, which reflects a policy judgment that Payment Account balances should not earn a return, the Closing Balance Limit should be responsive to evolving payment volumes, changing business models, shifts in market structure, and the Federal Reserve's own operational experience with Payment Account holders. Payment Account holders will include institutions with novel and rapidly evolving business models. The Board acknowledged that it does not yet have empirical data on how Payment Account holders will manage their balances, how payment flows will develop, or whether the proposed $1 billion cap is appropriately calibrated. In this environment, the members suggest the Board preserve maximum flexibility to recalibrate the Closing Balance Limit as it gains operational experience.

Hybrid approach. IIF members suggest a hybrid approach for the Closing Balance Limit. The requirement should be codified in Regulation D while the mechanics and operational elements should be determined in the PSR Policy. Utilizing a hybrid approach provides the greatest regulatory flexibility. The PSR Policy provides the Board with the flexibility to adjust the Closing Balance Limit methodology, the proposed maximum cap, and the parameters of the Temporary Closing Amount mechanism without undertaking a formal notice-and-comment rulemaking under the Administrative Procedure Act (APA). Conversely, codifying every provision in Regulation D would subject adjustments, particularly those that are technical or time-sensitive, to the full APA process.

Speed of adaptation. The Closing Balance Limit may need to be adjusted in response to conditions that develop quickly, such as a rapid increase in payment volumes by a class of Payment Account holders or a change in the Federal Reserve's own monetary policy implementation framework. A hybrid PSR Policy and Regulation D approach allows the Board to respond to developments on a timeline measured in months rather than years. Full codification in Regulation D would introduce procedural rigidity at a point in the Payment Account's lifecycle when the Board most needs the ability to learn, adapt, and iterate.

Preserves Reserve Bank operational discretion. Under a hybrid Regulation D and PSR Policy approach, individual Reserve Banks can set each Payment Account's Closing Balance Limit based on an analysis of the institution's expected payment flows, subject to the proposed cap and Board oversight. This institution-specific, activity-based calibration is a strength. It ensures that limits are tailored to actual payment needs rather than imposed as a one-size-fits-all regulatory requirement. Taking a hybrid approach could alleviate pressure on the Board to adopt a more formulaic or standardized approach, preserving the Reserve Banks' ability to exercise informed judgment about individual Payment Account holders' circumstances.

Recommendation. IIF members recommend a hybrid approach, one that accommodates the staff recommendation to retain operational mechanisms of the Closing Balance Limit in the PSR Policy while codifying the requirement in Regulation D. The Closing Balance Limit is a calibration tool that requires flexibility, speed of adaptation, and operational discretion that the PSR Policy provides. Codifying the Closing Balance Limit is necessary, but formalizing its specific framework in Regulation D would introduce procedural rigidity at a stage where the Board most needs the ability to learn from operational experience and adjust accordingly.

b. Are there important interactions between limiting closing balances and paying zero interest on Payment Accounts that the Board has not identified?

IIF members share the following observation (as addressed in our Response to **Consultation 3** Question # 3b).

New channels of interconnectedness. The combined effect of zero interest and the Closing Balance Limit is likely to produce a distinctive pattern of daily funding flows between Payment Account holders and their commercial bank counterparties. Payment Account holders will draw funds into their Payment Accounts at the beginning of the business day to support payment settlement and sweep excess funds back to commercial bank counterparties before close of business to minimize zero-interest opportunity costs and comply with the Closing Balance Limit.

These daily flows create a new source of operational and financial interconnectedness between Payment Account holders and the traditional banking system. The interaction between zero interest and the Closing Balance Limit means that these flows are not discretionary. Rather, they are structurally embedded in the Payment Account's incentive architecture. Commercial banks that serve as funding counterparties for Payment Account holders could experience potentially large daily inflows and outflows, creating operational dependencies and counterparty concentration risk. Members are supportive of the Closing Balance Limit, but note that during stress periods, the transition dynamic could disrupt funding relationships, as commercial banks may be unable to extend the same level of intraday funding to Payment Account holders. As multiple Payment Account holders simultaneously sweep excess balances back to commercial bank counterparties, end-of-day concentration could create operational bottlenecks in the narrow window before the Federal Reserve's close of business. This has potential implications for short-term funding markets and intraday rate dynamics.

Recommendation. IIF members recommend that the Board assess whether these new channels of interconnectedness warrant additional monitoring, reporting, or risk management requirements for Payment Account holders and their commercial bank counterparties. The Board identified that zero interest and the Closing Balance Limit interact in important ways. The dynamics of these interactions warrant more analysis than the proposal provides. For Payment Accounts to succeed, members suggest that the Board analyze how these tools interact and establish a robust monitoring framework to detect and respond to potential unintended consequences.

3. The Board is proposing to restrict a Payment Account from being an OC 1 Correspondent or OC 1 Respondent for any service to which Payment Accounts have access. Should a Payment Account holder be permitted to access the FedNow Service as an OC 1 Respondent? If permitted, are there particular or unique risks the OC 1 Correspondent should consider in deciding whether or not to offer such services?

IIF members support the Board's proposed prohibition on OC 1 Correspondent and OC 1 Respondent status as the appropriate baseline. Members note that this question was not raised in the December 2025 RFI, which addressed only the prohibition on acting as a correspondent. Members approach this as a new question requiring additional analysis while rooted in the IIF's February 2026 response, which supported the prohibition and recommended broader restrictions on nested flows and indirect access.

Prohibition is sound. IIF members support the Board's proposal that Payment Account holders may not act as either OC 1 Correspondents or OC 1 Respondents as those terms are

defined in Operating Circular No. 1.[9] This prohibition is appropriate as a general matter for the reasons the Board has identified.

- **Complex operational and risk profiles.** The OC 1 Correspondent-Respondent relationships and risk profiles are inconsistent with the Payment Account's streamlined, lower-risk architecture. An OC 1 Correspondent permits another institution to settle transactions through its account and can create settlement risk, operational dependencies, and monitoring obligations that extend beyond the Payment Account holder's own payment activity.

- **Subject to full review.** OC 1 relationships should be subject to the full review associated with the provision of a Master Account under the Account Access Guidelines, not the streamlined review proposed for Payment Account requests. The risk profile of an institution that settles transactions on behalf of other institutions is qualitatively different from that of an institution that settles only its own payment activity.

Although the December 2025 RFI did not contemplate OC 1 Respondent status, the underlying policy rationale of preventing Payment Account holders from participating in complex settlement arrangements that extend risk beyond their own payment activity applies to both sides of the Correspondent-Respondent relationship. IIF members affirm that the prohibition on OC 1 Correspondent status should be absolute. More broadly, we also reiterate the IIF's February 2026 recommendations, which called for "prohibitions on nested flows, restrictions on affiliate transactions, and bans on acting as a sponsor institution" to "prevent indirect access by ineligible entities." The IIF's February 2026 response addressed these concerns in the context of the correspondent prohibition set forth in the December 2025 RFI. A Payment Account holder should not be permitted to allow other institutions to settle transactions through its Payment Account under any circumstances. The credit risk, operational complexity, and potential for indirect access by ineligible entities are not compatible with the Payment Account's design.

FedNow/OC 1 Respondent access. The December 2025 RFI prohibited acting as a correspondent only. The May 2026 proposal expanded the prohibition to cover both OC 1 Correspondent and OC 1 Respondent status, a change that was responsive to commenter concerns about operational complexity.

OC 1 Correspondent risks. IIF members recognize that permitting Payment Account holders to act as FedNow OC 1 Respondents would create risks for the Master Account holders that serve as OC 1 Correspondents. These risks include:

- **Operational risk.** The OC 1 Correspondent must monitor and manage the Payment Account holder's activity within its Master Account, creating operational burden and potential liability. If the Payment Account holder's transaction volumes are large or unpredictable, this monitoring obligation could strain the OC 1 Correspondent's operational capacity.

- **Settlement risk.** The OC 1 Correspondent's Master Account is used to settle the OC 1 Respondent's transactions. If the Payment Account holder acting as OC 1 Respondent fails to fund its obligations, the OC 1 Correspondent could bear the settlement exposure. While the FedNow Service's real-time settlement model could reduce the duration of this exposure, it does not eliminate it entirely. The OC 1 Correspondent may be exposed to the risk that the Payment Account holder becomes insolvent between the time a transaction is initiated and the time it settles.

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[9] Fed. Reserve Banks, Operating Circular No. 1, Account Relationships (eff. Sept. 1, 2023).

- **Reputational risk.** An OC 1 Correspondent that facilitates settlement for a Payment Account holder that subsequently fails or is involved in illicit activity could face reputational consequences, even if the OC 1 Correspondent itself acted appropriately.

Recommendation. IIF members support the proposed prohibition on OC 1 Correspondent and OC 1 Respondent status as the appropriate baseline for the Payment Account's initial framework and encourage the Board to continue evaluating the control structures that may mitigate risks. In addition, members reiterate the IIF's February 2026 recommendations that Payment Accounts include prohibitions on nested flows, restrictions on affiliate transactions, and bans on acting as a sponsor institution.

4. The Board is proposing that the Closing Balance Limit be established based on an institution's expected payment activity at the beginning of the Federal Reserve's business day, not to exceed $1 billion.

a. Is $1 billion an appropriate maximum for the Closing Balance Limit?

Ensure the cap is appropriate and analytically supported. The Board Staff Memo reports that staff conducted a distributional analysis of depository institutions' closing Master Account balances and found that, over a five-year period, approximately 97% of closing balances were equal to or less than $1 billion. Based on that analysis, staff concluded that "limiting all closing balances to $1 billion or less would appropriately support Payment Account holders' payment activity while limiting Payment Account balances."[10] IIF members appreciate the Board's effort to ground the proposed Closing Balance Limit in empirical analysis. As the IIF noted in its February 2026 response, an asset-based formula "may not reflect actual payment needs" for institutions with high payment volumes but smaller balance sheets and suggested the Board could instead "determine the overnight balance cap by analyzing actual payment flows." The Board's shift toward an activity-based methodology is therefore responsive to those recommendations. However, the cap should be calibrated only after the Board and the Reserve Banks have assessed actual Payment Account activity, which may differ materially from Master Account activity.

Anticipated use cases. Because 97% of existing Master Account closing balances fall at or below the proposed cap, and Payment Accounts are designed for a narrower range of activities than Master Accounts (i.e., clearing and settlement only, no lending, no deposit-taking beyond payment facilitation), it is reasonable to expect that Payment Account holders' closing balance needs will generally fall below this ceiling. The activity-based methodology ensures that individual limits are set below the proposed cap based on each institution's actual or projected payment flows, providing a further layer of calibration.

Balances utility with balance sheet risk. The Closing Balance Limit serves a dual function. It provides sufficient headroom for Payment Account holders to support their payment activity while placing a firm upper bound on any individual institution's contribution to the Federal Reserve's balance sheet. This balance is critical to the Board's objective of ensuring that Payment Accounts do not expand the balance sheet beyond what is needed for efficient monetary policy implementation.

Measured, incremental approach. The IIF's February 2026 response strongly recommended "a measured iterative approach" to the Payment Account framework, citing the UK's Ipagoo failure as a cautionary example. Members suggest the Board ensure the cap is appropriately tailored for a new account type whose usage patterns, balance dynamics, and systemic implications have not yet been observed in practice. Starting with the proposed cap

[10] Board Staff Memo, *supra* n. 5.

and adjusting based on experience and observable flows of Payment Accounts when they are operationalized is preferable to setting a higher cap that may prove difficult to adjust.

Recommendation. IIF members suggest the Board ensure the maximum Closing Balance Limit is analytically well-founded, appropriately tailored for a new account type, and consistent with the measured, incremental approach the IIF members have advocated by reviewing the cap periodically, including once Payment Accounts have observable flows. This will ensure the Closing Balance Limit accommodates most anticipated use cases while maintaining a firm upper bound on individual institutions' contributions to the Federal Reserve's balance sheet and broader monetary policy implications.

b. Are there effects of limiting closing balances in Payment Accounts that the Board has not identified?

End-of-day cliff effects. As Payment Account holders approach their individual Closing Balance Limits at the end of each Federal Reserve business day, they may engage in concentrated, time-sensitive funding movements to bring their balances into compliance. These movements create what the IIF's February 2026 response characterized as "cliff effects" – sharp spikes in activity within the narrow window before the Federal Reserve's close of business. The May 2026 proposal's elimination of any intraday balance limit mitigates the intraday dimension of this concern. However, the end-of-day cliff remains. If a Payment Account holder has accumulated balances above its Closing Balance Limit during the business day, which the proposal permits, it must transfer those excess balances to commercial bank counterparties or other external accounts before close of business.

If multiple Payment Account holders engage in this behavior simultaneously, this could result in operational congestion on the Fedwire Funds Service and FedNow Service during the final hours of the business day, as Payment Account holders execute outbound transfers to reduce balances below their limits. This also may lead to concentrated counterparty exposure for the commercial banks that receive these end-of-day flows. A limited number of commercial banks may serve as the primary funding counterparties for multiple Payment Account holders, creating a concentration of inflows that must be managed within a compressed time window. As a result, there could be increased settlement failure risk if a Payment Account holder is unable to execute the necessary outbound transfers before the close of business due to operational disruptions, system outages, or counterparty unavailability. The proposed escalating compliance program ensures accountability for Closing Balance Limit violations, but those consequences do not prevent the operational disruption caused by a failed end-of-day balance reduction.

Weekend and holiday liquidity constraints. The FedNow Service operates 24/7/365, but the Closing Balance Limit is assessed at the Federal Reserve's close of business on each Federal Reserve business day. This creates a distinctive liquidity challenge over weekends and multi-day holidays. A Payment Account holder must comply with its Closing Balance Limit at the close of business on every Federal Reserve business day, including the business day preceding weekends and multi-day holidays. During weekends and holidays, external funding sources, commercial bank counterparties, money markets, and corporate treasury operations may have limited or no availability. A Payment Account holder that needs to replenish its balance to support FedNow payment activity over a holiday weekend may be unable to source funds from external counterparties until the next business day. The incentive created by zero interest to minimize closing balances (as discussed in the IIF's responses in **Consultation 3**) compounds this constraint. A Payment Account holder that has aggressively minimized its Friday closing balance to reduce opportunity costs may find itself with insufficient liquidity to support FedNow settlement activity on Saturday and Sunday.

The Board's proposed Closing Balance Limit methodology directs Reserve Banks to "take into consideration periods of time when external sources of liquidity may be limited, such as during weekends and holidays" when setting individual limits.[11] IIF members welcome this language but note that it creates tension. If the Reserve Bank sets the Closing Balance Limit high enough to accommodate weekend and holiday liquidity needs, the limit may be unnecessarily permissive during the regular business week, when external funding is readily available. Conversely, if the limit is calibrated to normal business-day needs, it may be insufficient for weekends and holidays.

Procyclical balance during stress. The IIF's February 2026 response flagged "procyclical behavior during stress events" as a concern associated with balance limits. The May 2026 proposal's Closing Balance Limit interacts with stress dynamics in a way the Board's analysis does not fully explore. During periods of market stress, Payment Account holders may simultaneously seek to increase their closing balances toward their individual Closing Balance Limits. This is driven by the precautionary demand for the safety of central bank money. If this behavior is correlated across multiple Payment Account holders, as it likely would be during a systemic stress event, the aggregate effect could be an increase in demand for Payment Account balances, funded by withdrawals from commercial bank deposits, money market instruments, or other private-sector sources.

This procyclical balance-building could be a drain on commercial bank reserves. If Payment Account holders source their precautionary balances from commercial bank deposits, the resulting outflows could reduce those banks' reserves at precisely the moment they are most needed, potentially amplifying the stress. Additionally, during stress, the Closing Balance Limit may function less as a constraint and more as a target. Payment Account holders could seek to reach this ceiling to maximize their precautionary buffer. If the market perceives that Payment Account holders are racing to fill their accounts to the limit, this could itself become a signal of stress, potentially accelerating the very dynamics the Board is seeking to contain.

Recommendation. The May 2026 proposal addresses several of the concerns IIF members raised in its February 2026 response, most notably by not introducing an intraday balance limit and establishing the Temporary Closing Amount mechanism. However, end-of-day cliff effects, weekend and holiday liquidity constraints, and procyclical balance-building during stress are effects of the Closing Balance Limit that the Board has not fully addressed. When the Board enters the operational phase, these dynamics will need monitoring and periodic recalibration.

5. **The proposal does not include specific illicit finance requirements in connection with a Payment Account request. Should there be requirements for institutions that are not federally insured? For example, if an institution requesting a Payment Account were not federally insured, should the institution be required to submit an attestation that it is a "bank" under the BSA or be required to submit an assessment of its BSA/AML and OFAC compliance programs from an independent third-party, or should the Reserve Bank be required to confirm that the BSA/AML and OFAC supervisory and regulatory regime of the institution is comparable to that of a federally insured institution?**

IIF members support specific illicit finance requirements for non-federally insured Payment Account holders not subject to federal supervision[12] and recommend that the Board distinguish

[11] *Id.*

[12] The IIF notes that a federal banking agency supervision standard may provide a clearer and more directly relevant criterion than insured depository institution (IDI) status for assessing BSA/AML/CFT oversight in the proposed Payment Account framework, especially as the proposal is aimed at non-insured entities that are eligible for Payment Accounts.

mandatory and discretionary requirements based on the institution's tier classification and supervisory regime. The Board's proposed non-exhaustive list of discretionary illicit finance mitigants in PSR Policy is a constructive step. However, for non-federally insured institutions, members believe certain requirements should be mandatory rather than discretionary.

Proposed framework is constructive. IIF members support the Board's effort to formalize illicit finance risk provisions in the proposed PSR Policy. The December 2025 RFI noted only that the Board was "exploring additional risk controls" covering areas such as AML risk mitigation, without specifying the form those controls would take. The May 2026 proposal advances the Board's goal and proposes a non-exhaustive list of six categories of information that a Reserve Bank may, at its discretion, require from a Payment Account holder.[13] These categories mirror the recommendations in the IIF's February 2026 response, which called for "documented, independently tested AML/BSA/CFT programs," "information sharing arrangements between the Federal Reserve and the primary supervisor," and "regular reporting and senior management attestations."

Discretionary application is insufficient. IIF members believe that the discretionary application of these provisions is insufficient for non-federally insured institutions (Tier 2 and Tier 3 under the Account Access Guidelines). The Board Staff Memo acknowledges the core concern that "Payment Account requesters are more likely to be subject to weaker and more divergent supervisory regimes and are more likely to engage in new or emerging business lines" and notes that "Payment Account requesters could pose greater and more heterogenous risk than federally insured institutions."[14]

This assessment supports mandatory rather than discretionary requirements.[15] If the Board leaves all illicit finance mitigants to Reserve Bank discretion, the result will be inconsistent application across the twelve Reserve Banks, with some Reserve Banks imposing rigorous requirements and others applying minimal controls. This inconsistency would undermine the transparency and predictability that the Payment Account framework is designed to provide, and it could create opportunities for regulatory arbitrage. Certain institutions could seek Payment Accounts from Reserve Banks perceived as having less demanding illicit finance requirements.

Federal oversight and third-party assessment. Non-federally insured institutions may not be subject to the same supervisory examination cycle as federally insured depository institutions. Applicants and Payment Account holders should be overseen by a federal banking agency for compliance with BSA/AML/CFT requirements, or at a minimum be required to annually submit an independent third-party assessment, conducted by a qualified firm with no material business relationship with the applicant. Such an assessment would provide the Reserve Bank with a baseline evaluation of the institution's AML/BSA/CFT controls before granting access to the Federal Reserve's payment infrastructure. The IIF's February 2026 response recommended pre-access examinations by supervisors or third parties as a prerequisite for Payment Account access. While the Board did not adopt this recommendation as a standard term, IIF members believe it is essential for non-federally insured institutions and reiterate it here.

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[13] PSR Policy, *supra* n. 7, at 30639 (identifying that Reserve Banks could require: (1) independent, third-party assessments of BSA/AML and OFAC compliance programs; (2) attestations regarding compliance with BSA/AML and OFAC laws and regulations; (3) copies of BSA/AML and OFAC compliance program audits; (4) regular meetings with the Reserve Bank; (5) notification of enforcement actions; or (6) notification of material deficiencies.
[14] Board Staff Memo, *supra* n. 5, at 10.
[15] Michael S. Barr, Governor, Bd. of Governors of the Fed. Rsrv. Sys., Statement of Payment Account Proposal (May 20, 2026) (voicing concern about insufficient AML/BSA safeguards and the absence of Federal Reserve examination and inspection authority over Payment Account holders' AML/BSA compliance).

Cross-border considerations. To the extent a Payment Account holder engages in cross-border settlement activity, the assessment should address whether the institution has a comprehensive and well-governed compliance framework, including customer identification and due diligence procedures, transaction monitoring and suspicious activity reporting capabilities, OFAC screening and sanctions controls, board and senior management oversight of the compliance function, and independent testing or audit. Because cross-border flows can introduce heightened financial crime, sanctions, jurisdictional, and operational risks, particularly as intermediation models evolve, the assessment should also consider whether controls, monitoring, and accountability remain effective across relevant participants so that changes in intermediation arrangements do not result in unclear responsibilities, reduced oversight, or regulatory gaps.

BSA attestation and compliance. IIF members support the requirement that a Reserve Bank require a Payment Account holder to attest that it is a "bank" as defined in the Bank Secrecy Act and its implementing regulations.[16] However, members note that not all institutions seeking a Payment Account qualify as a bank under the BSA.[17] Institutions that are not banks under the BSA may nonetheless be subject to AML/BSA/CFT requirements under other regulatory frameworks.

IIF members suggest that the Board require non-federally insured Payment Account holders to provide an attestation that the institution is a bank under the BSA, accompanied by identification of the institution's primary federal banking regulator for BSA purposes. Alternatively, if an institution is not a bank under the BSA, it should provide a detailed description of the AML/BSA/CFT regime to which it is subject. This description should include the identity of the supervisory authority, the applicable statutory and regulatory framework, the examination or audit cycle, and the enforcement mechanisms available to the supervisor. This approach would ensure that the Reserve Bank has a clear understanding of the AML/BSA/CFT framework applicable to each Payment Account holder, regardless of whether that framework is administered by a federal banking regulator, FinCEN, a state regulator, or another authority.

Annual independent audit. The pre-access third-party assessment provides a point in time baseline. However, AML/BSA/CFT compliance is an ongoing obligation that requires continuous monitoring. IIF members recommend that non-federally insured Payment Account holders be required to obtain an independent audit of their BSA/AML and OFAC compliance programs at least annually and to provide copies of the audit report to their Reserve Bank. This requirement ensures that the Reserve Bank has current information about the institution's compliance posture throughout the life of the Payment Account, not only at the point of access.

Comparability determinations. IIF members support the requirement that a Payment Account holder demonstrate that it is subject to a BSA/AML and OFAC supervisory regime comparable to that applicable to federally insured institutions. Members urge that the Board establish transparent and strong baselines for Payment Account holders. They cautioned that for institutions chartered under state laws that differ substantially from federal banking regulation, not providing transparent and strong baselines could complicate the application process for institutions subject to emerging or non-traditional regulatory frameworks that do not map neatly onto the federal banking model.

Information sharing arrangements. Regardless of whether specific illicit finance requirements are mandatory or discretionary, their effectiveness depends on the Federal

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[16] PSR Policy, *supra* n. 7, at 30642.

[17] Not all institutions legally eligible for Federal Reserve accounts under the Federal Reserve Act will qualify as a "bank" as defined in 31 C.F.R. § 1010.100(d). The BSA's definition of bank is limited to enumerated categories of chartered depository institutions and expressly excludes money services businesses. *See* 31 C.F.R. § 1010.100(d)(7); *see also* 31 C.F.R. § 1010.100(ff) (separately defining money services business).

Reserve's ability to obtain and verify information about Payment Account holders' compliance programs. For non-federally insured institutions, the primary source of this information will often be the institution's state regulator or other primary supervisor, not a federal banking agency.

IIF members suggest that the Board formalize expectations for information-sharing arrangements between Reserve Banks and the primary supervisors of non-federally insured Payment Account holders. Members recognize the importance of information sharing and consultation between Reserve Banks and state regulators on access requests involving state-chartered institutions. Members suggest the Board require Reserve Banks to establish information-sharing arrangements with the primary supervisor of each non-federally insured Payment Account holder prior to granting account access. This could include the ongoing exchange of supervisory information (e.g., examination findings, enforcement actions, and material changes in the institution's compliance posture). Additionally, a Payment Account holder should be required to consent to the sharing of relevant supervisory information between its primary supervisor and the Reserve Bank as a condition of account access.

Recommendation. The Board's proposed list of discretionary illicit finance mitigants is a constructive step that mirrors the IIF's February 2026 recommendations. However, discretionary application would be insufficient for non-federally insured institutions. IIF members recommend a framework that ensures a consistent, high standard of AML/BSA/CFT compliance for non-federally insured Payment Account holders, and ongoing federal supervision. Effective implementation of any such requirement will depend on information sharing arrangements between Reserve Banks and primary supervisors. These arrangements should be formalized for Payment Account access.

6. Should the Board make any changes to the existing tiering framework in connection with the Payment Account proposal and the proposed amendments to the Guidelines?

IIF members do not recommend fundamental changes to the existing tiering framework. The three-tier structure is analytically sound, appropriately calibrated to real differences in supervisory regimes and risk profiles across institution types, and provides a workable foundation for reviewing Payment Account requests. Members suggest certain transparency improvements to strengthen the framework's effectiveness without altering its structure.

Tiering framework is sound. The Board adopted the Account Access Guidelines' tiering framework in August 2022 after a public comment process. The framework reflects that requirements should track risk, a principle that IIF members endorse. The IIF's February 2026 response emphasized that "requirements should be risk-based" and "should reflect the reality that liquidity management practices, and operational, AML/BSA/CFT, and cyber risks are similar across banks and non-banks."

The three tiers appropriately capture the spectrum of regulatory and supervisory frameworks applicable to institutions that may request access. **Tier 1 institutions** (federally insured institutions) operate within a comprehensive federal prudential supervisory regime, and Reserve Banks have ready access to detailed supervisory and financial information, supporting a streamlined review. **Tier 2 institutions** (non-federally insured institutions subject to federal prudential supervision, with a holding company under Federal Reserve oversight) are subject to an overlapping federal supervisory framework, and Reserve Banks have meaningful supervisory information, supporting an intermediate level of review. **Tier 3 institutions** (non-federally insured institutions not subject to federal prudential supervision) may operate under regulatory frameworks materially different from those applicable to federally insured institutions, and comparable regulatory and financial information may be limited or unavailable, warranting the most extensive review. This graduated structure reflects genuine

differences in risk profiles and supervisory infrastructure available to Reserve Banks. IIF members flag that collapsing or restructuring the tiers could obscure these differences and risk either under-review of higher-risk institutions or unnecessary burden on lower-risk institutions.

Tiers and Payment Accounts – complementary frameworks. The Payment Account's standard set of risk-mitigating terms provides a risk-reducing overlay that works within the existing tiering framework rather than replacing it. As the Board correctly states, "while Payment Account requests will receive a more streamlined review than a Master Account request from the same institution due to the Payment Account's lower residual risk profile, the Board reiterates that the Guidelines' tiered framework would continue to apply."[18] This is the right approach. The Payment Account's terms, including no discount window access, no intraday credit, zero interest, the Closing Balance Limit, and OC 1 Correspondent/Respondent prohibitions, reduce the residual risk profile of any institution that holds one. But these terms do not eliminate the underlying differences in supervisory regimes, insolvency frameworks, and data availability that distinguish Tier 1, Tier 2, and Tier 3 institutions. A Tier 3 institution holding a Payment Account presents potentially greater supervisory uncertainty than a Tier 1 institution holding the same account, and the tiering framework appropriately reflects this.

Transparency improvements. While IIF members do not recommend structural changes to the tiering framework, they suggest targeted improvements to promote the foundational principle of transparency. The IIF's February 2026 response called for "a transparent, consistent review process across Reserve Banks" and "a standardized account type with clear expectations, consistent review processes, and transparent supervisory requirements." Suggested improvements could include:

- **Standardized documentation.** IIF members suggest publishing a standardized documentation checklist by tier and account type. Prospective applicants should know, before submitting a request, what documentation the Reserve Bank will require to evaluate their application. A standardized checklist, differentiated by tier (Tier 1, Tier 2, Tier 3) and account type (Master Account, Payment Account), reduces uncertainty, can accelerate the review process, and promotes consistency across the twelve Reserve Banks.

- **Summary statistics.** IIF members suggest that the Board publish periodic aggregate statistics on access request outcomes on approvals, denials, withdrawals, and average review timelines by tier and account type, without identifying individual institutions. This data would provide market participants with a clearer understanding of the review process and would allow the Board to assess whether the tiering framework is being applied consistently across Reserve Banks. The Board already publishes a database of access requests, including the status, action date, and tier.[19] Expanding this to include aggregate outcome data and timeline statistics would be a valuable extension building on existing data fields.

Tier 3 pause. IIF members support the Board's encouragement that Reserve Banks pause decisions on access requests from Tier 3 institutions until the Board completes its policy development process on the Payment Account proposal.[20] Expected to end on or before December 31, 2026, a pause is consistent with the IIF's February 2026 recommendation for "a measured iterative approach" and ensures greater transparency, consistency, and certainty for institutions seeking access during this period. Members emphasized that the review process should be deliberate and that speed is not always consistent with a safety and soundness

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[18] PSR Policy, *supra* n. 7, at 30641 n. 67.
[19] Bd. of Governors of the Fed. Rsrv. Sys., Master Account and Services Database – Database: Request for Access (last updated Mar. 27, 2026).
[20] PSR Policy, *supra* n. 7, at 30646.

approach. The pause provides the Board with time to finalize the Payment Account framework without rushing decisions on Tier 3 access requests.

Recommendation. The tiering framework is a sound and appropriately calibrated structure that should be retained without fundamental changes. The Payment Account's standardized terms complement the framework by reducing an institution's residual risk profile and supporting a more streamlined review within the existing tiers. IIF members recommend a focus on transparency improvements, such as published checklists and summary statistics, to strengthen the framework's effectiveness. Doing so promotes consistent application across Reserve Banks without altering the Payment Account's underlying architecture.

7. Is the proposed timeline for reviewing access requests from Tier 1 institutions appropriate? Should the Board consider setting timelines for reviewing other access requests from Tier 2 and Tier 3 institutions?

IIF members are generally supportive of transparency, accountability, and consistency around expectations for account review, but raised concerns about the potential risks of expediting application reviews. Members suggest the Board ensure that all timelines are subordinate to thorough, risk-based review to ensure safety and soundness, and resist any interpretation that frames them as a measure of speed.

Transparency and accountability, not speed. IIF members' support for review timelines is grounded in sound policy and practice. The absence of any timeline creates opacity and inconsistency in the review process. This could undermine confidence in the framework and disadvantage applicants who have no visibility into when or how their requests will be resolved. Timelines address this problem by setting expectations, promoting consistency across Reserve Banks, and creating a framework for accountability when reviews are prolonged.

45-Day Tier 1 timeline. IIF members support the transparency into the review timelines and emphasize the need for thorough review of access requests from Tier 1 institutions as a general expectation. Federally insured institutions are subject to comprehensive federal banking regulations, and detailed regulatory and financial information is readily available. For most Tier 1 institutions, 45 days could provide sufficient time for a thorough review. IIF members' reservations are directed not at the timeline itself but at its potential misapplication. The timeline should not compress diligence. Circumstances may arise, such as material changes to a business model, pending enforcement actions, or complex organizational structures. Changes that are material will require more than a 45-day review process. The Board consultation mechanism for extending the review is essential and should be used without hesitation when warranted. Also, the timeline should not create a presumption of approval. A Tier 1 institution that submits a complete application is entitled to a timely review, not to a favorable outcome. Members suggest the Board clarify that the 45-day expectation applies to the duration of the review, not to its result.

90-Day Tier 2 and 3 timelines. As with Tier 1 institutions, IIF members support the transparency into the review timelines and emphasize the need for thorough review of access requests from Tier 2 and Tier 3 institutions. Payment Accounts are viewed as carrying a lower residual risk profile than Master Accounts because of their standard risk-mitigating terms. At the same time, members support that the proposed clock begins only once the Reserve Bank "receives all requested documentation."[21] This gives the Reserve Bank substantial discretion to toll the start of the review period until the requester satisfies application requirements. Members note that the IIF's February 2026 response recommended requiring applicants to "demonstrate effective regulatory performance for an appropriate period" as a condition of access. Because many Tier 2 and Tier 3 applicants may have limited or no track record under a

[21] *Id.*, at 30642.

federal supervisory framework, members caution against quick approvals that later require remediation or account closure. This could undermine the institution, the Payment Account framework, and the payment system.

Restrictive timelines carry risk. Restrictive timelines can be misinterpreted by applicants and Reserve Bank staff as a signal that the Board prioritizes speed of access over rigor of review. The IIF urges the Board to guard against this misinterpretation. The Payment Account framework introduces a new class of institutions to direct Reserve Bank access, many of which will have novel business models, divergent supervisory regimes, and limited track records of regulatory performance under federal oversight. The integrity of the review process is essential for the framework's success. Members suggest that the Board clearly state in the final rule preamble that the proposed timelines are planning expectations designed to promote transparency and accountability. The timelines are not statutory deadlines, they do not create an entitlement to a decision within the stated period, and they do not limit Reserve Banks' discretion to extend reviews through the Board consultation process when a thorough assessment requires additional time.

Recommendation. IIF members support the proposed timelines as instruments of transparency and accountability, not as measures of speed. The Payment Account framework introduces a new class of institutions to direct Reserve Bank access, and the credibility of the framework depends on the rigor and consistency of the review process. A procedural transparency approach promotes accountability without compromising the thoroughness of review. This approach addresses concerns that the proposed review process could be opaque and unpredictable while preserving the Reserve Banks' discretion to take the time necessary for a thorough, safety-and-soundness-focused review. Promoting visibility and procedural fairness serves the framework's long-term interests.