AMERICAN BANKERS ASSOCIATION AND THE CONSUMER BANKERS ASSOCIATION, STEPHEN KENNEALLY, ET. AL.

Proposal and Comment Information

Title: Proposed Revisions to the Federal Reserve Policy on Payment System Risk and the Guidelines for Account and Services Requests, OP-1878

Comment ID: FR-2026-0013-01-C42

Submitter Information

Organization Name: American Bankers Association and the Consumer Bankers Association

Organization Type: Organization

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Submitted Date: 07/24/2026

Please accept this comment on behalf of the American Bankers Association and the Consumer Bankers Association. Please contact Stephen Kenneally at skenneal@aba.com with any questions.

July 24, 2026

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

Re: Proposed Revisions to the Federal Reserve Policy on Payment System Risk and the Guidelines for Account and Services Requests; Regulation A: Extensions of Credit by Federal Reserve Banks; and, Regulation D: Reserve Requirements of Depository Institutions (Docket Nos.: OP-1878; R-1892; R-1893)

Dear Mr. McDonough:

The American Bankers Association (ABA)[1] and the Consumer Bankers Association (CBA)[2] appreciate the opportunity to comment on the Board of Governors of the Federal Reserve System's Request for Comment (RFC) on Proposed Revisions to the Federal Reserve Policy on Payment System Risk and the Guidelines for Account and Services Requests; Regulation A: Extensions of Credit by Federal Reserve Banks; Regulation D: Reserve Requirements of Depository Institutions. Our members share the Board's commitment to a safe, resilient, and innovative U.S. payments system. We commend the Board for approaching this proposal with a risk-based lens and for recognizing that full-service Master Accounts are neither necessary nor suitable for all potential applicants. Because the proposal moves from a prototype concept to a formal policy and regulatory framework, careful design and robust, enforceable risk mitigants are essential to uphold the integrity of the payments system and to protect the public interest.

I. Overview and Executive Summary

The Payment Account is premised on limited functionality, no interest earned on balances, no overdrafts or daylight credit, no access to the discount window, and only access to services for which the Federal Reserve can limit credit risk. We agree with the Board's underlying premise that this design, if implemented with additional guardrails and direct federal supervision, would provide a measured pathway for eligible institutions to engage in payment activity while preserving systemic resilience. At the same time, the diverse nature of potential applicants—including uninsured entities and firms operating under non-uniform charters or evolving regulatory regimes—poses unique challenges. These attributes argue strongly for a graduated approach that proceeds only as quickly as safety and soundness allow, and that places ongoing accountability for risk management and compliance on both the applicant and, where supervisory gaps exist, on the Federal Reserve as a condition of access. ABA made similar comments regarding these and other issues in this letter in its prior response to the Board's Request for Information (RFI) on the Payment Account Prototype issued in December 2025.[3]

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[1] The American Bankers Association is the voice of the nation's $25.1 trillion banking industry, which is composed of small, regional, and large banks that together employ approximately 2 million people, safeguard $19.7 trillion in deposits and extend $13.2 trillion in loans.

[2] The CBA is a member-driven trade association, and the only national financial trade group focused exclusively on retail banking—banking services geared toward consumer and small businesses. As the recognized voices on retail banking issues, CBA provides leadership, education, research and representation for its members. CBA members operated in al 50 states. They include the nation's largest bank holding companies as well as regional and super-community banks. A vast majority of CBA's members are financial institutions holding more than $10 billion in assets.

[3] American Bankers Association February 6, 2026 Comment Letter to the Board of Governors regarding the Request for Information on Reserve Bank Payment Account Prototype, https://www.aba.com/advocacy/policy-analysis/Letter-on-payment-account-prototype

Master Account access should remain subject to the Board's existing account access framework and should not be obtained through, or treated as a natural progression from, Payment Account access. Master Account access should be limited to Tier 1 institutions that are supervised by federal banking agencies and hold federally insured deposits.

Accordingly, we recommend the following features be incorporated into the Payment Account framework: (i) retain all core risk-mitigating terms proposed by the Board, including the prohibitions on interest, intraday credit, discount window access, and FedACH access to mitigate credit risk to the Federal Reserve and counterparties; (ii) establish clear, transparent, and public-facing eligibility and review criteria for all Payment Account applicants across all Reserve Banks; (iii) condition access on demonstrated competence in governance, independent risk management, BSA/AML/CFT compliance, sanctions compliance, cybersecurity, and operational resilience; (iv) further restrict 'nesting' or de facto correspondent activity that would circumvent Payment Account limitations; (v) develop and enforce meaningful exit, recovery, and resolution expectations; and (vi) require that all Payment Account participants be subject to direct federal banking agency supervision for compliance with BSA/AML/CFT, sanctions, operational, and cybersecurity requirements as a condition of access.

II. Eligibility, Supervisory Expectations, and the Role of the Federal Reserve

Legal eligibility under the Federal Reserve Act is a necessary condition but is not, standing alone, sufficient for access. The Board's obligation to assess not only eligibility but also the underlying risk profile and the sufficiency of ongoing supervision is essential. The possession of a bank charter, whether state or federal, should not result in entitlement to payment account access. In several cases, potential applicants may hold charters with non-uniform standards or limited federal oversight, which increases the importance of consistent, enforceable expectations—regardless of underlying charter type.

We recommend that the Board formally condition Payment Account access on maintaining robust governance, independent risk management, internal controls, and compliance functions commensurate with the applicant's size, complexity, and activities. The Board should carefully evaluate the qualifications and experience of senior management and operational leaders responsible for payments processing, compliance, and cybersecurity. Where an applicant is entering 'new business' or scaling rapidly, the Board should consider more frequent post-implementation reviews and a conservative progression of permitted activity to validate controls in real-world conditions.

The process to obtain a Master Account should remain rigorous and must remain separate from the Payment Account process. We commend the Board for maintaining that position in this RFC and recommend that it remain in the final rule. Payment Account holders that wish to obtain a Master Account should be required to submit a new application subject to the full Master Account review framework. Master Account access should remain reserved for institutions with comprehensive federal prudential supervision and federally insured deposits.

III. Risk Mitigation, Phased Implementation, and Financial Assurances

We support the Payment Account's core limitations—prefunding of all payments, prohibition on daylight overdrafts and discount window access, selective access to payment rails (notably excluding FedACH) and the absence of interest on balances. Given uncertainties in applicants' business models and operational maturity, we urge the Board to adopt a 'crawl, walk, run' progression for activity as expressed in prior comments to the RFI. At inception, the Board should set conservative daily transaction limits and increase them only after the applicant demonstrates compliant, properly controlled performance over sustained periods.

IV. AML/BSA/CFT, Sanctions, Cybersecurity, and Operational Resilience

The payments system's integrity depends on robust detection and prevention of illicit finance, including money laundering, terrorist financing, and sanctions evasion. We recommend that the Board categorically condition access on a mature and demonstrably effective BSA/AML/CFT and sanctions compliance program that includes adherence to the same requirements banks are subject to: risk-based customer due diligence, customer identification programs, beneficial ownership identification, transaction monitoring, sanctions screening, investigations, suspicious activity reporting, and independent testing functions staffed by qualified personnel. Applicants and Payment Account holders must be overseen by a federal banking agency to ensure compliance with these requirements.

Operational risk and cybersecurity warrant equally rigorous attention. Payment Account holders should be required to implement strong cybersecurity, information security, and data protection measures, including identity and access management, IT resilience, network and cloud security, and third-party risk management commensurate with critical payments operations. Account holders should demonstrate competence in these areas during the initial application process and on an ongoing basis thereafter and be required to report material compliance, operational, and cyber events to the Reserve Bank and the Board. Applicants and Payment Account holders must be overseen by a federal banking agency to ensure compliance with these requirements, or at a minimum be required to complete an annual audit by a qualified third-party to ensure that all regulatory requirements are met. Applicants should also maintain credible recovery and resolution plans to ensure orderly wind-down without disrupting other participants.

At a minimum, entities seeking access to a Payment Account should maintain appropriate insurance coverage equal or like what bank holding companies must maintain.[4] Relevant coverage could include professional liability/errors and omissions, crime or fidelity bond coverage, specie coverage for digitally native firms with cold storage exposure, cyber and privacy liability, technology errors and omissions, and general liability.

V. Prohibition on Correspondent and "Nesting" Arrangements

We commend the Board for noting the prohibition on correspondent and respondent banking activity by Payment Account holders. This is a critical safeguard and should be retained in the final version of this policy.

The RFC's prohibition on correspondent banking activities by Payment Account holders is a critical safeguard. Extending that prohibition to "nesting" arrangements—where an applicant provides payment services to third parties that themselves offer bank-like services whether they are actual financial institutions or not—will help prevent the circumvention of the Payment Account's limitations and ensure that risk does not reenter the payment system through an indirect channel.

We recommend that the Board make explicit that Payment Accounts cannot be used to process payments on behalf of third-party institutions or service providers that would effectively treat the account holder as a correspondent. This restriction should apply regardless of whether the downstream entity is legally a "bank," because the relevant risk arises from the function performed, not the label attached. The Board should monitor transaction volumes and patterns to ensure Payment Accounts are not acting as conduits for entities that are not legally eligible. Excessive volumes inconsistent with the scope of an accountholder's stated business model should trigger review, activity restrictions, or termination, as appropriate.

[4] See Federal Reserve Division of Supervision and Regulation, Bank Holding Company Supervision Manual Section 2050, https://www.federalreserve.gov/supervisionreg/files/bhc.pdf. See also Federal Deposit Insurance Corporation, Risk Management Manual of Examination Policies, https://www.fdic.gov/resources/supervision-and-examinations/examination-policies-manual/section4-4.pdf.

VI. Interactions with Evolving Legal and Regulatory Frameworks
Potential applicants may engage in activities for which legislative and regulatory frameworks are evolving (including certain digital asset and stablecoin-related activities). Where fundamental supervisory and legal questions remain unresolved—such as the primary supervisory responsibility, permissible scope of activities, custodial practices, segregation requirements, and redemption rights—the Board should proceed only with heightened safeguards and retain discretion to deny or terminate access where core risks cannot be adequately managed.

VII. Design Features: Services, Balance Limits, and Discount Window/Interest Prohibitions
We support maintaining access only to payment services with automated controls that prevent overdrafts and that support a prefunding model. We support the Board's decision to restrict Payment Accounts from accessing FedACH services due to the credit risk it may introduce. Given the nature of the ACH system, which batch-processes payments, has longer settlement windows, and allows returns, there is a higher risk of payments that would cause an overdraft.

Outside of the overdraft discussion, ACH participation further requires sophisticated compliance capabilities, including sanctions screening, anti-money laundering controls, suspicious activity monitoring, and consumer protection compliance. Entities likely to pursue Payment Accounts may not have robust, bank-grade fraud controls, increasing risk of unauthorized ACH debits against a consumer, resulting in consumer harm and financial losses for receiving banks. If Payment Account holders are not supervised like insured depository institutions, permitting FedACH access could create gaps in risk monitoring and enforcement.

If the Board were to consider any future changes to the Design Features of the Payment Account it should do so only after engaging in a formal public notice and comment process.

We continue to believe that a limited Payment Account does not need access to the Federal Reserve's National Settlement Service (NSS). Granting Payment Account holders direct access to the NSS would introduce material and unnecessary risks into the core of the U.S. payments infrastructure. NSS is designed to support a relatively small number of highly regulated, supervised depository institutions with established liquidity management frameworks, capital requirements, and access to the Federal Reserve's broader risk controls. Extending access to lightly regulated entities could weaken these safeguards by introducing participants that may lack comparable prudential oversight, operational resilience, and loss-absorbing capacity. This, in turn, heightens credit, liquidity, and operational risks for the system as a whole—particularly given NSS's role in settling large-value, time-critical obligations across clearinghouses and payment networks. Moreover, expanding access would complicate the Federal Reserve's ability to manage intraday liquidity, counterparty risk, and systemic contagion in stressed conditions, potentially amplifying rather than mitigating financial instability. Allowing access to NSS would create a potential monitoring gap. Reserve Banks see only the netted settlement outcome, not the underlying originators or beneficiaries. For these reasons, limiting NSS participation to institutions subject to robust, bank equivalent supervision remains essential to preserving the safety, soundness, and integrity of the nation's settlement framework.

We also oppose making the Fedwire Securities Service for transfers free of payment (FOPs) available to Payment Account holders. This service will not provide any benefit for entities focused on payments and would introduce risk with no offsetting benefit. The Fedwire Securities Service is the Federal Reserve's real-time, electronic system for issuing, transferring, and settling U.S. government and certain federal agency securities. It functions as a centralized securities depository, maintaining accounts for participating institutions (primarily banks) and recording ownership changes on its books. Transfers are processed individually and with immediate finality, meaning that once a transaction is completed, it is

irrevocable and legally binding. The service plays a critical role in the functioning of Treasury markets, supporting activities such as securities issuance, dealer trading, collateral transfers, and pledging securities for liquidity or credit purposes. These activities are important, but none of them are relevant for an entity that is set up specifically to process payments. Payment Account holders should not have access to this service.

Allowing access to the Fedwire Securities Service—particularly to effect transfers free of payment (FOP)—would introduce significant and disproportionate risk into a system designed for highly regulated depository institutions with robust supervisory oversight. Extending this capability to entities that may not be subject to equivalent prudential standards increases the potential for operational failures, fraud, or misappropriation of securities, as well as legal uncertainty around asset ownership and finality. Moreover, broader access could undermine the integrity of custody and settlement chains by introducing participants that lack established risk management, internal controls, or resolution frameworks, thereby increasing the likelihood that a failure at a single participant could propagate disruption across the securities settlement ecosystem. For these reasons, restricting Fedwire Securities Service access—especially for FOP transfers—to well-supervised banking organizations remains essential to limiting systemic and operational risk.

These services should be removed in the final framework to reduce complexity and avoid unintended risk transmission channels.

Establishing a closing balance limit on a Payment Account offers significant benefits for reserve management and operational risk mitigation. We support the Board's shift to an activity-based closing balance limit determined by expected payment flows with an upper cap. An activity-based approach, with a closing balance tailored to each Payment Account holder, better aligns liquidity with settlement needs, and reduces operational risks, than a purely asset-based cap. However, the Board should adopt a standardized, transparent methodology and conservative default parameters to avoid inconsistent outcomes across Reserve Banks.

Regarding the newly proposed activity-based closing limit of $1 billion, that should be the absolute cap for any Payment Account. The Board stated that a limit that high would satisfy 97% of Master Account holder activity in recent years. The Board should make any decision to increase the closing balance cap beyond $500 million for a Payment Account very carefully based upon the needs and capabilities of the account holder judged against any risk to be introduced to the marketplace. If the closing balance is set too low, Payment Account holders may face payment delays or failures, especially during periods of high activity. If the closing balance limit is too high, excess balances held in Reserve Accounts may have implications for the Federal Reserve managing its balance sheet.

The Board should review the closing balance limit cap once Payment Accounts are operationalized for a period of one year to ensure the cap is appropriately calibrated based on observable payment flows and closing balances. Each individual Payment Account should undergo review on a regular basis to determine that its closing balance limit is appropriate based upon its transaction activity, especially if the limit exceeds $500 million. Future adjustments to the closing balance limit cap should occur through a transparent public process and should default toward conservatism during initial phases.

We support the prohibition on discount window access for Payment Account holders and the Board's proposal to codify this prohibition in Regulation A (12 C.F.R. Part 201).

We support not paying interest on balances in a Payment Account to limit risks to monetary policy implementation and systemic stability. The Board should maintain this restriction, together with closing balance limits, to ensure that the account is structured for its intended use as a Payment Account, rather than for investment or overnight funding purposes. The prohibition on paying interest should be codified in Regulation D (12 C.F.R. Part 204) and should be accompanied by restrictions preventing Payment Account holders from using Excess Balance Accounts to circumvent the zero-interest feature.

VIII. Application Transparency and Process

To foster market discipline and confidence, we urge the Board to enhance transparency by publishing clear criteria addressing business-model risk, governance expectations, BSA/AML/CFT and sanctions capabilities, cybersecurity requirements, and operational readiness benchmarks. The Board should clarify expected timelines and decision points and provide explanatory statements when access is approved with conditions or denied, redacted as necessary to protect sensitive information.

We reiterate that a 90-day review expectation should not limit thorough due diligence. Reserve Banks should be permitted to exceed any target timeline when additional time is needed to assess risks, supervisory gaps, or operational complexity. Especially if these are entities that would not qualify to receive a Master Account. Account parameters should be consistent, standardized, and aligned with Reserve Bank Operating Circulars. Each Reserve Bank reviewing an application should publicly report its decision to approve or deny a Payment Account application. For approved applications, the Reserve Bank should identify the payment rails the applicant may access. If an applicant is denied access to a specific payment rail, the Reserve Bank shall provide an explanation for the decision. All Payment Account applications and decisions should be maintained in a separate database, modeled on the current Master Account Database, to clearly distinguish Payment Account access from Master Account access.

IX. Enforcement and Exit

The Board should articulate, in advance, the enforcement tools it will use to respond to deficiencies, including the ability to impose additional conditions, restrict activity, or terminate access. The Board should make clear that Payment Account access is a privilege that can be withdrawn if an accountholder fails to meet operational, risk management, or compliance expectations. Applicants should maintain credible recovery and resolution strategies proportional to their activity level and interconnectedness, with periodic testing to validate feasibility.

X. Responses to the Formal Questions and Key Issues Raised in the RFC

1. Does the proposed Payment Account framework appropriately balance innovation and risk management?

We believe the proposed framework can support certain clearing and settlement use cases if it is implemented with strong supervisory prerequisites, conservative activity scaling, and enforceable compliance standards. The core guardrails—prefunding, no overdrafts, no interest, and no access to Reserve Bank credit—are essential and should remain intact.

2. What payment activities or use cases would a Payment Account best facilitate (or be unable to facilitate)?

Payment Accounts are best suited for prefunded clearing and settlement through limited services with automated overdraft controls, including Fedwire Funds and FedNow. Payment Accounts are not appropriate for activities requiring intraday credit, interest-bearing balances, or transfer-against-payment securities settlement. The Board should reconsider whether NSS and free-of-payment securities transfers add value that offsets added complexity.

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3. How should the Board set and recalibrate closing balance limits?

We support an activity-based closing balance limit calibrated to demonstrated payment flows, with conservative default ceilings and periodic recalibration based on actual volumes and observed operational performance. The methodology should be standardized across Reserve Banks and should not rely solely on projected or aspirational activity. Once Payment Accounts are operationalized, the Board should reassess closing balance limits based on demonstrated balances/payment flows for Payment Accounts.

4. What are the benefits and drawbacks of paying no interest on Payment Account balances?

Not paying interest aligns with the Payment Account's limited purpose and discourages its use as a store of value. It preserves monetary policy transmission and mitigates bank-disintermediation risk. While some firms may view the lack of interest as reducing attractiveness, that outcome reinforces prudential objectives.

5. How should the Board constrain BSA/AML/CFT and sanctions risks?

Access should be conditioned on a mature compliance program, independent testing, experienced leadership, real-time sanctions screening, and robust transaction monitoring. Critically, Payment Account holders should be subject to direct federal banking agency supervision and examination for BSA/AML/CFT and sanctions compliance as a condition of access.

6. What additional features or limits should the Board consider?

Entities seeking access to a Payment Account should maintain appropriate insurance coverage equal or like what bank holding companies must maintain. Relevant coverage could include professional liability/errors and omissions, crime or fidelity bond coverage, specie coverage for digitally native firms with cold storage exposure, cyber and privacy liability, technology errors and omissions, and general liability.

7. What approach should the Board take to the Tier 3 pause and governance consistency?

We support the Tier 3 pause as a necessary step to promote consistent implementation while the Board finalizes Payment Account standards. The Board should provide clear criteria for any exceptions, require consultation at the Board level, and publish high-level transparency metrics regarding pending requests and decision outcomes.

8. How should the 90-day review timeline be implemented?

A general expectation for timeliness may be helpful, but it must not constrain due diligence. Reserve Banks should retain flexibility to exceed 90 days when warranted by the applicant's risk profile, supervisory gaps, or operational complexity. The Reserve Banks must not be constrained in their reviews, especially if the applicants would fall into the riskier Tier 2 and Tier 3 categories established in the *Guidelines for Evaluating Account and Service Requests*[5] published in 2022. The Guidelines clearly outline the increases risks for entities that have not federal banking agency oversight and no deposit insurance. Transparency about milestones and documentation requirements will be critical.

[5] August 15, 2022, Board of Governors of the Federal Reserve, Guidelines for Evaluating Account and Services Requests, https://www.federalreserve.gov/newsevents/pressreleases/files/other20220815a1.pdf

Conclusion
We support the Board's Payment Account access proposal as a prudent framework for responsible innovation if the additional safeguards outlined in this letter—direct federal banking agency supervision, enforceable risk management and compliance standards, conservative activity limits, limits on activity on behalf of third parties, prohibitions on nesting arrangements, meaningful financial assurances, and credible recovery and resolution planning are implemented which would allow the Payment Account to promote orderly participation by eligible institutions while preserving the safety, soundness, and integrity of the U.S. payments system. We appreciate the Board's consideration of these recommendations and stand ready to assist as the framework is refined and implemented.

Please contact Stephen Kenneally at skenneal@aba.com or (202) 663-5147 with any questions.

Sincerely,



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SVP, Payments
American Bankers Association



David Pommerehn
EVP, General Counsel, Head of Regulatory Affairs
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