INSTITUTE OF INTERNATIONAL FINANCE, JESSICA RENIER

Proposal and Comment Information

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Regulation D: Reserve Requirements of Depository Institutions [Docket No. R-1893]

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,

Regulation D: Reserve Requirements of Depository Institutions [Docket No. R-1893]

The Institute of International Finance (IIF) appreciates the opportunity to comment on the Board of Governors of the Federal Reserve System's (Board) notice of proposed rulemaking (NPRM) 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 3**) is to help the Board finalize *Regulation D's proposed framework to exclude Payment Account balances from earning interest* in a manner that supports the Payment Account's limited purpose while advancing payment innovation, settlement efficiency, and 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 Request for Comment on Proposed Revisions to the Federal Reserve Policy on Payment System Risk and the Guidelines for Account and Services Requests (RFC) [Docket No. OP-1878],[1] and the NPRM on Regulation A: Extensions of Credit by Federal Reserve Banks [Docket No. R-1892].[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 three question areas outlined in the NPRM.

IIF members' key points include:

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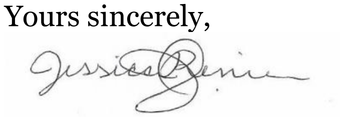
[1] Proposed Revisions to the Federal Reserve Policy on Payment System Risk and the Guidelines for Account and Services Requests, Notice and Request for Comment, 91 Fed. Reg. 30,627 (May 26, 2026) (**Consultation 1**).
[2] Regulation A: Extensions of Credit by Federal Reserve Banks, 91 Fed. Reg. 30,498 (May 26, 2026) (**Consultation 2**).

- **Zero interest is a structural safeguard.** Members support retaining zero interest as a foundational safeguard. Paying no interest on Payment Account balances reinforces the account's limited settlement purpose, discourages use as a store of value, and preserves a clear distinction from Master Accounts. Paired with the Closing Balance Limit, zero interest provides an effective and administrable approach to limiting balance-sheet expansion.
- **IORB and ON RRP access undermine the Payment Account's design.** Alternative interest-rate approaches would weaken the Payment Account framework. Paying Interest on Reserve Balances (IORB) or overnight reverse repo facility (ON RRP) rates on Payment Account balances would blur the distinction between Payment Accounts and Master Accounts, increase incentives to hold central bank balances, risks regulatory arbitrage, and introduce additional complexity for monetary policy implementation and Reserve Bank balance-sheet management without commensurate benefit.
- **EBA prohibition preserves the integrity of the framework.** The EBA prohibition is necessary to prevent circumvention. Members support revising Regulation D to bar Payment Account holders from participating in Excess Balance Accounts. EBA access could recreate interest-bearing balances and allow institutions to avoid the practical effect of the Closing Balance Limit, undermining the architecture of the proposal.
- **No action needed for pass-through balances and term deposits.** No revisions are needed at this time to the pass-through balance and term deposit provisions. Members agree that amendments to the relevant Regulation D provisions are unnecessary in the current environment because reserve requirement ratios remain at zero, the term deposit facility is not operational, and existing restrictions already address the underlying policy concerns.
- **New operational interdependencies require supervisory attention.** The interaction between zero interest and the Closing Balance Limit creates new operational interdependencies that warrant attention. Members emphasize that the framework is likely to generate recurring daily funding flows between Payment Account holders and commercial bank counterparties. This potentially creates operational bottlenecks, concentration risks, and new channels of stress transmission that should be incorporated into the Board's supervisory and monitoring approach.
- **Strengthen the monitoring framework.** The proposal should be finalized with a stronger monitoring and assessment framework. While direct effects on monetary policy implementation are likely to be modest, members suggest the Board explicitly monitor aggregate balance-sheet effects across multiple account holders, deposit displacement from the banking system, intraday sweeping behavior, end-of-day funding pressures, federal funds market effects, and sensitivity across the interest rate cycle.

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 NPRM.

Yours sincerely,



Jessica Renier
Managing Director, Digital Finance

Annex 1

Answers to NPRM Questions

1. **Has the Board appropriately identified and considered the potential effects of Payment Accounts on monetary policy implementation, or are there additional effects on monetary policy implementation that the Board should consider?**

IIF members believe the Board has largely identified and considered the principal effects of Payment Accounts on monetary policy implementation. The Board's analysis of both direct and indirect balance sheet effects appears sound, and the proposed combination of zero interest and the Closing Balance Limit is calibrated to minimize those effects. Members identify several additional considerations that the Board could incorporate into its ongoing assessment.

Agreement on the core framework. IIF members support the Board's conclusion. Paying zero interest on Payment Account balances, combined with the Closing Balance Limit, should ensure that the direct effect of Payment Accounts on Federal Reserve liabilities is modest and that the Federal Reserve would not need to expand its balance sheet significantly beyond what is otherwise needed to efficiently and effectively implement monetary policy. The Board's framework rests on two complementary mechanisms.

- **Non-stress periods**. During non-stress periods, zero interest incentivizes Payment Account holders to minimize closing balances to the lowest level practical needed to manage their payment flows, likely well below the Closing Balance Limit. This ensures that aggregate Payment Account balances do not accumulate to levels that would materially affect the composition of the Federal Reserve's balance sheet.

- **Stress periods**. During stress periods when risk aversion may drive demand for central bank money regardless of yield, the Closing Balance Limit provides the binding constraint, capping the amount any individual Payment Account holder may retain at close of business.[3]

The IIF's February 2026 response to the Board's December 2025 RFI endorsed both features as foundational safeguards.[4] The Board's May 2026 proposals have strengthened the framework by shifting from an asset-based to an activity-based Closing Balance Limit methodology and eliminating any intraday balance limit. These refinements improve the operational utility of the Payment Account without compromising the balance sheet mitigation framework.

Indirect effects warrant further assessment. The Board acknowledged that the indirect effects of Payment Accounts on other Federal Reserve liabilities are "difficult to assess".[5] These liabilities depend on several factors, including the characteristics of Payment Account holders, the source of funds flowing into Payment Accounts, and the amount of sweeping activity from commercial bank deposits to support higher intraday balances. IIF members support this assessment and commend the Board for its transparency about the inherent uncertainty. Members suggest the Board consider several indirect channels through which Payment Accounts could affect monetary policy implementation.

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[3] *See generally*, Conf. of State Bank Supervisors Response to the Fed. Rsrv. Sys. Request for Information and Comment on Reserve Bank Payment Account Prototype (Feb. 6, 2026).

[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) (**IIF Feb 2026 Response**).

[5] Regulation D: Reserve Requirements of Depository Institutions, 91 Fed. Reg. 30,503, 30,506 (proposed May 26, 2026) (**Regulation D NPRM**).

Additional effects the Board could consider.

- **Aggregate balances across Payment Account holders.** The Board's analysis focuses on the Closing Balance Limit of individual Payment Account balances, which is proposed to be capped at $1 billion. However, the aggregate effect across all Payment Account holders could be more significant than any single account. If multiple large institutions simultaneously hold Payment Accounts at or near their individual Closing Balance Limits, the cumulative addition to the Federal Reserve's balance sheet could become material. IIF members suggest that the Board could model scenarios and assess the implications for reserve supply, the federal funds rate, and the overall size of the Federal Reserve's balance sheet relative to its monetary policy implementation framework.

- **Deposit displacement dynamics.** The establishment of Payment Accounts could alter the allocation of funds within the financial system. To the extent that Payment Account holders source their balances from commercial bank deposits, whether through direct transfers or through the intermediation of customer payment flows, Payment Account adoption could lead to measurable deposit outflows from commercial banks. The magnitude of this effect will depend on the scale of Payment Account adoption and the business models of Payment Account holders. While the Board has acknowledged the source of funds question, IIF members recommend that the Board develop a more detailed analytical framework for monitoring deposit displacement effects, including coordination with the FDIC and state banking regulators whose supervised institutions may be most affected.

- **Sweeping behavior and intraday balance sheet dynamics.** The May 2026 proposal permits unlimited intraday balances in Payment Accounts while constraining only closing balances. This creates an incentive structure under which Payment Account holders may develop sophisticated sweeping strategies, such as drawing large balances into Payment Accounts at the beginning of the Federal Reserve business day to fund payment activity and sweeping excess balances back to commercial bank counterparties before the close of business to comply with the Closing Balance Limit. If this behavior occurs at scale, it could create intraday spikes in the Federal Reserve's balance sheet. While not reflected in end-of-day reporting, this could complicate intraday reserve management and potentially affect intraday market rates. IIF members suggest that the Board assess whether such dynamics could interact with the Federal Reserve's existing intraday liquidity framework, including the management of aggregate reserves and the operation of the Fedwire Funds Service and FedNow Service during peak settlement periods.

- **Interest rate cycle sensitivity.** The interaction between zero interest and prevailing market rates introduces a procyclical dynamic that the Board's analysis does not fully explore. When market interest rates are low, the opportunity cost of holding zero-interest Payment Account balances is minimal, potentially increasing demand for Payment Accounts and expanding aggregate balances on the Federal Reserve's balance sheet. When rates are high, the opportunity cost increases, potentially reducing Payment Account adoption, utilization, and closing balances. This dynamic could mean that Payment Accounts contribute to balance sheet expansion during periods of low-rate environments when the Federal Reserve may already be managing an enlarged balance sheet, and contract during tightening cycles when the Federal Reserve is seeking to reduce its footprint. IIF members suggest that the Board could consider whether this procyclical pattern could complicate the calibration of reserve supply and the management of the federal funds rate within the target range.

- **Federal funds market.** The Board has concluded that the risk to rate control from paying zero interest on Payment Account balances would be minimal. IIF members concur with this assessment in the near term, particularly given the modest initial scale of Payment Account adoption likely during the Tier 3 pause period. However, if Payment Account adoption scales significantly over time, the reallocation of reserves from commercial banks, which participate in the federal funds market, to Payment Account holders, which do not, could modestly reduce trading volume in the federal funds market. This could affect the distribution of reserves among institutions that set the effective federal funds rate. IIF members suggest that the Board could monitor federal funds market activity as Payment Account adoption increases.

Recommendation. The Board's analysis of the effects of Payment Accounts on monetary policy implementation is appropriately grounded in the dual framework of zero interest and the Closing Balance Limit. IIF members support the Board's proposed approach but encourage the Board to supplement its analysis with attention to aggregate balance sheet effects, deposit displacement dynamics, intraday sweeping behavior, interest rate cycle sensitivity, and federal funds market implications. These effects are uncertain at this stage, which is why members recommend an ongoing monitoring and assessment framework rather than additional restrictions in the current rulemaking.

2. **The proposed revisions would provide that balances maintained in Payment Accounts would not earn interest.**

   a. **Would zero interest effectively mitigate the impact on the Fed's balance sheet?**

IIF members believe that zero interest is an effective and necessary component of the balance sheet mitigation framework. The combination of zero interest and the Closing Balance Limit makes the framework viable across both normal and stressed market conditions.

Yield incentive. Zero interest eliminates the financial incentive for Payment Account holders to treat the account as a store of value or investment vehicle. As IIF members stated in their February 2026 response, zero interest is "not merely a design choice" but "a foundational safeguard" that "reinforces [Payment Accounts'] limited purpose" as clearing and settlement tools.[6] Members reaffirm this position.

By paying no interest, the Board ensures that money held in a Payment Account at the close of business carries an opportunity cost equal to the prevailing market rate. During non-stress periods, this incentive structure should encourage Payment Account holders to minimize closing balances to the lowest level practical to manage their payment flows. This is consistent with the Board's analysis in the NPRM. IIF members support the Board's conclusion that zero interest, combined with the Closing Balance Limit, would allow the Federal Reserve to "control the size of Payment Accounts on the Federal Reserve's balance sheet during both stress and non-stress periods."[7]

Additionally, IIF members note that zero interest is consistent with the treatment of comparable accounts by peer central banks. The Bank of England does not pay interest on balances held by non-bank payment service providers in RTGS settlement accounts. This reflects the same principle that accounts designed for payment settlement should not function as interest-bearing reserves.

Monitoring balance minimization and settlement activity. Because Payment Account holders do not have access to intraday credit, and transactions that would cause an overdraft are automatically rejected, the Board has noted that Payment Account holders have a strong

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[6] IIF Feb. 2026 Response, at 11.
[7] Regulation D NPRM, *supra n. 5*, at 30504.

operational incentive to maintain adequate balances to avoid settlement failures. IIF members agree that this incentive is likely to dominate in practice. However, the tension between balance minimization (driven by zero interest) and settlement adequacy (driven by the overdraft rejection mechanism) is an area that warrants ongoing attention. For example, this tension could materialize over weekends and multi-day holidays when external funding sources may be unavailable and Payment Account holders must pre-position sufficient balances to support FedNow Service activity on a 24/7/365 basis. While this supports the Board's balance sheet minimization objective, it could also increase the risk that Payment Account holders would maintain insufficient balances.

Recommendation. Zero interest is an effective component of the balance sheet mitigation framework. It removes the yield incentive to hold excess balances, aligns with the Payment Account's limited purpose, and is consistent with international practice. Its efficacy, however, depends on the complementary Closing Balance Limit, which provides the binding constraint during stress periods and in scenarios where the opportunity cost of zero interest is insufficient to deter balance accumulation. IIF members support the Board's proposed approach and recommend that the Board monitor the interaction between balance minimization incentives and settlement adequacy as the framework becomes operational.

b. Are there effects of paying zero interest that the Board has not identified?

Procyclicality. The Board's analysis addresses the behavioral incentives created by zero interest during both stress and non-stress periods but does not fully explore how those incentives shift across the interest rate cycle. This dynamic introduces a procyclical element to Payment Account behavior. Balances may grow when the Federal Reserve is easing and shrink when the Federal Reserve is tightening. In both cases, this dynamic could complicate the calibration of reserve supply and the management of the federal funds rate within the target range. IIF members suggest that the Board model Payment Account balance behavior under a range of interest rate scenarios and incorporate this analysis into its ongoing monitoring framework.

Competitive Dynamics. Regardless of size, capitalization, or business model, zero interest creates a uniform cost structure for all Payment Account holders. While uniformity is generally a strength of the Payment Account's standardized terms, it may have an unintended competitive effect. Larger or more well-capitalized Payment Account holders will be better positioned to absorb the opportunity cost of holding zero-interest balances. They can maintain adequate closing balances to ensure smooth settlement operations without significant impact on their overall returns. In contrast, smaller or less-capitalized institutions may face proportionally greater pressure from the foregone interest. This could lead some to maintain thinner balances, accept higher settlement failure risk, or forgo the Payment Account altogether.

Over time, this dynamic could concentrate Payment Account usage among a relatively small number of large institutions, reducing the competitive benefits the Payment Account framework is designed to promote. This could potentially increase systemic risk if the payment system becomes dependent on a handful of large Payment Account holders for critical settlement functions. IIF members suggest that the Board could monitor the distribution of Payment Account adoption by institution size and assess the impact of zero interest on smaller institutions.

Effect on end-of-day funding. The Board's analysis addresses end-of-day balance minimization as a behavioral incentive but does not fully explore its market effects. Zero interest incentivizes Payment Account holders to sweep excess balances out of their Payment Accounts before the Federal Reserve's close of business, returning those funds to commercial bank counterparties or other investments. If multiple Payment Account holders engage in this behavior simultaneously, particularly on days with heavy payment volumes or ahead of weekends and holidays, it could create concentrated end-of-day funding flows between Payment Account holders and their commercial bank counterparties.

These flows could increase operational burden on the commercial banks that serve as funding counterparties for Payment Account holders. This could create intraday rate pressure in short-term funding markets if large volumes of funds are being redeployed from Payment Accounts into overnight investments within a compressed time window. Additionally, this could introduce a new source of interconnectedness between Payment Account holders and the traditional banking system, creating channels through which stress at a Payment Account holder could transmit to its commercial bank counterparties, and vice versa. IIF members suggest the Board could assess whether these concentrated end-of-day flows could affect the functioning of short-term funding markets or create new financial stability risks that warrant additional monitoring or reporting requirements.

Recommendation. The Board's analysis of zero interest is reasoned but would benefit from addressing interest rate cycle sensitivity, competitive dynamics among Payment Account holders, and end-of-day funding market effects. These effects are difficult to predict in advance of the Payment Account framework becoming operational. This reinforces the importance of the ongoing monitoring and assessment framework that IIF members recommended throughout their responses to these consultations.

c. Should the Board instead provide for interest? If so, why and at what rate (the IORB, ON RRP, other)? What effects would a different rate have on the Reserve Banks' combined balance sheet and the implementation of monetary policy?

Zero interest should be maintained. IIF members recommend that the Board maintain zero interest on Payment Account balances. As the IIF stated in its February 2026 response and throughout its responses to these consultations, zero interest is a foundational safeguard that serves three reinforcing functions. It reinforces the Payment Account's limited purpose, supports balance sheet minimization, and maintains a clear distinction between Payment Accounts and Master Accounts.

IORB Rate. Paying interest at the IORB rate would eliminate the distinction between Payment Accounts and Master Accounts for balance management purposes. Master Account holders currently earn IORB on their balances. If Payment Account holders earned the same rate, the zero-interest feature would no longer serve as a differentiating risk mitigant. In turn, the Board would need to rely on the Closing Balance Limit to control Payment Account balances. This would be a significant weakening of the framework.

Paying IORB on Payment Account balances would expand the Federal Reserve's interest expense. The Board's May 2026 Staff Memo notes that about 97% of existing Master Account closing balances fall at or below $1 billion. If Payment Account holders maintain balances at or near their Closing Balance Limits and earn IORB, payment of interest by the Reserve Banks could become material. As the number of potential Payment Account holders grows, this could affect the Reserve Bank remittances to the U.S. Treasury. Paying IORB could also incentivize regulatory arbitrage. Institutions that might otherwise seek a Master Account could instead request a Payment Account to obtain IORB on balances while benefiting from the streamlined review process. IIF members note that without being subject to the full range of supervisory expectations associated with a Master Account, this would undermine the integrity of the Board's proposed two track framework.

ON RRP rate. Paying interest at the ON RRP rate would create a de facto floor under Payment Account balances analogous to the floor created by the ON RRP facility for money market participants. The ON RRP facility is designed to support rate control by providing an alternative investment for a broad set of counterparties. Extending a similar rate to Payment Account holders would expand the institutions with access to a risk-free, interest-bearing central bank liability. This could potentially draw funds away from private money markets and commercial bank deposits.

Expanding the Federal Reserve's balance sheet by attracting balances that would otherwise reside in the private financial system is the outcome the Board's framework is designed to prevent. Doing so would complicate the Board's management of the ON RRP facility, an important tool for monetary policy implementation. IIF members note that adding a new class of counterparties with access through a different channel introduces unpredictable flows between the ON RRP facility, Payment Accounts, and the federal funds market.

Recommendation. IIF members recommend that the Board maintain zero interest on Payment Account balances. Each of the alternative rates considered by the Board would weaken the balance sheet mitigation framework, blur the distinction between Payment Accounts and Master Accounts, and introduce complexity without commensurate benefit. Zero interest, operating in conjunction with the Closing Balance Limit, is the most effective, transparent, and administrable approach to ensuring that Payment Accounts serve their intended purpose as clearing and settlement tools without expanding the Federal Reserve's balance sheet or complicating monetary policy implementation.

d. **The Board has proposed to revise paragraph (d) of § 204.10 to provide a Payment Account holder would not be able to be an EBA participant. Is this revision appropriate or should the Board consider alternatives (which could include leaving paragraph (d) unchanged)?**

IIF members support updating § 204.10(d) to prohibit Payment Account holders from participating in Excess Balance Accounts. Members recommend that the Board not leave paragraph (d) unchanged.

EBA prohibition is necessary. The Payment Account's risk-mitigation architecture rests on two complementary balance-control mechanisms: zero interest on Payment Account balances and the Closing Balance Limit. These two features are designed to work together to ensure that Payment Account holders do not use their accounts as a store of value and that the aggregate size of Payment Account balances does not expand the Federal Reserve's balance sheet beyond what is needed for efficient and effective monetary policy implementation. Permitting Payment Account holders to participate in EBAs creates a direct pathway to circumvent both safeguards.

Reserve Bank liabilities. EBA balances are direct liabilities of a Reserve Bank to the EBA participant, not liabilities to the agent. Money held by a Payment Account holder in an EBA would constitute reserves on the Federal Reserve's consolidated balance sheet. On the balance sheet, this would be economically similar to reserve liabilities for balances held in a Master Account. If Payment Account holders were permitted to participate in EBAs at scale, the aggregate effect would be an expansion of the Federal Reserve's balance sheet by institutions intended to have a minimal impact. The Board's staff analysis reinforces this concern: "If this were to occur at scale, it could expand the Federal Reserve's balance sheet beyond what is needed to efficiently and effectively implement monetary policy."[8] IIF members support this assessment.

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[8] Bd. of Governors of the Fed. Rsrv. Sys., *Staff Memorandum: Requests for Comment on Proposed Establishment of a Payment Account*, at 11 n. 12 (May 7, 2026).

Recommendation. IIF members support the proposed revision to § 204.10(d). The revision is appropriate and should be retained. The EBA prohibition is a necessary complement to zero interest and the Closing Balance Limit, without which both safeguards could be circumvented. Leaving paragraph (d) unchanged creates a regulatory gap inconsistent with the Payment Account's design and purpose.

e. **The Board has proposed not to revise paragraphs (c) or (e) of § 204.10, which pertain to the payment of interest on pass-through balances and term deposits, respectively. Are revisions to those provisions necessary with respect to Payment Accounts?**

IIF members support the Board's assessment that revisions to paragraphs (c) and (e) of § 204.10 are not necessary.

Pass-through balances (§ 204.10(c)). IIF members agree with the Board that no amendment to § 204.10(c) is necessary. The provision permits a pass-through correspondent to distribute interest to a respondent on balances maintained at a Reserve Bank on a respondent's behalf to satisfy reserve balance requirements. However, under current policy, reserve requirement ratios have been set at zero percent since March 2020, eliminating the need to hold balances to meet reserve requirements.[9] While pass-through arrangements remain authorized under Regulation D, they have limited practical relevance in the current framework. Additionally, the proposed Payment Account framework addresses the underlying policy concern. Payment Account holders would be prohibited from acting as either OC 1 Correspondents or Respondents, would not receive interest, and would not be permitted to participate in EBAs. Together, these restrictions prevent Payment Account holders from participating in arrangements functionally similar to pass-through structures, even if reserve requirements are reinstated.

Term deposits (§ 204.10(e)). IIF members agree with the Board that no amendment to § 204.10(e) is necessary. The Term Deposit Facility (TDF) was established as a monetary policy tool to manage the aggregate level of reserve balances. However, the facility is not currently active and outstanding term deposit balances are zero. As such, amending § 204.10(e) to address Payment Account holders' eligibility for a facility that is not presently being utilized would be premature. Doing so would introduce regulatory text that is not tied to operational practice. Further, the existing regulatory framework preserves Board flexibility. Section 204.10(e) provides that interest on term deposits is determined by the Board based on prevailing monetary policy objectives and reflects the Board's authority to establish the TDF's terms and conditions. If the Board deemed it necessary to reactivate the TDF in the future, it could specify eligibility criteria, terms, or conditions applicable to Payment Account holders at that time. No preemptive amendment is required to preserve this flexibility.

Recommendation. IIF members support the Board's decision not to revise §§ 204.10(c) and (e) in the current environment. All reserve requirement ratios are zero, Reserve Banks do not currently accept term deposits, and the Payment Account's existing terms, including the OC 1 Correspondent/Respondent prohibition, zero interest, and the EBA prohibition, address the underlying policy concerns.

3. **In the Payment Account notice, the Board has proposed to add new Part IV to the PSR Policy, which would outline some of the different types of accounts that Reserve Banks provide to legally eligible institutions, and the standard terms under which these accounts would be provided. Among other things, proposed Part IV would establish a Closing Balance Limit. A Payment Account holder would be expected to achieve an account balance at or below the**

[9] Bd of Governors of the Fed. Rsrv. Sys., *Reserve Requirements* (last updated Nov. 26, 2025).

Closing Balance Limit at the Federal Reserve's close of business. The Closing Balance Limit would be set by the Reserve Bank based on expected payment activity, not to exceed $1 billion. A Closing Balance Limit and paying zero interest on Payment Accounts both serve to minimize the balances held in Payment Accounts and the direct impact Payment Accounts have on the Federal Reserve balance sheet. A Closing Balance Limit and paying zero interest could have important interactions whereby a change in one of the terms could affect the efficacy of the other.

a. **Given that paying zero interest and limiting closing balances on Payment Accounts serve a similar purpose 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 1** Question # 2a).

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 the 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 requirement is appropriate, but formalizing its specific framework in Regulation D would introduce procedural rigidity at a stage when 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 1** Question # 2b).

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 support the Closing Balance Limit but note that, during stress periods, the transition dynamic could disrupt funding relationships if commercial banks are 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.