

FEDERAL RESERVE SYSTEM

12 CFR Part 210

Regulation J

[Docket No. R- 1891]

RIN 7100-AH23

**Collection of Checks and Other Items by Federal Reserve Banks and Funds Transfers
Through the Fedwire Funds Service and the FedNow Service**

AGENCY: Board of Governors of the Federal Reserve System (Board)

ACTION: Proposed rule, request for comment.

SUMMARY: The Board is proposing amendments to subpart C of Regulation J (governing the FedNow[®] Service) to permit FedNow participants to use intermediaries, other than Reserve Banks, to send funds transfers through the FedNow Service.¹ The Board believes this change could support private-sector cross-border payment solutions by allowing FedNow participants to leverage an intermediary (for example, a correspondent bank) for the international portion of a cross-border transaction and use the FedNow Service for the U.S. domestic portion.

DATES: Comments must be submitted by **[INSERT DATE 60 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*]**.

ADDRESSES: You may submit comments, identified by Docket No. R-1891 and RIN 7100-AH23, by any of the following methods:

- *Agency Website:* <https://www.federalreserve.gov/apps/proposals/>. Follow the instructions for submitting comments, including attachments. ***Preferred Method.***

¹ “FedNow” and “Fedwire” are a registered service mark of the Reserve Banks. A list of marks related to financial services products that are offered to financial institutions by the Reserve Banks is available at FRBservices.org[®].

- *Mail:* Benjamin W. McDonough, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW, Washington, DC 20551.
- *Hand Delivery/Courier:* Same as mailing address.
- *Other Means:* publiccomments@frb.gov. You must include the docket number in the subject line of the message.

Comments received are subject to public disclosure. In general, comments received will be made available on the Board's website at <https://www.federalreserve.gov/apps/proposals/> without change and will not be modified to remove personal or business information including confidential, contact, or other identifying information. Comments should not include any information such as confidential information that would not be appropriate for public disclosure. Public comments may also be viewed electronically or in person in Room M-4365A, 2001 C St. NW, Washington, DC 20551, between 9 a.m. and 5 p.m. during Federal business weekdays.

FOR FURTHER INFORMATION CONTACT: Curtis M. Blair, Financial Institution Policy Analyst II, (202) 913-2169, Division of Reserve Bank Operations and Payment Systems; or Corinne Milliken Van Ness, Senior Counsel, Legal Division, Board of Governors of the Federal Reserve System: (202) 452-3000. For users of text telephone systems (TTY) or any TTY-based Telecommunications Relay Services, please call 711 from any telephone, anywhere in the United States.

SUPPLEMENTARY INFORMATION:

I. Background

On July 20, 2023, the Reserve Banks launched the FedNow Service. The FedNow Service is an interbank real-time gross settlement service that supports instant payments in the United States 24x7x365. Currently, under Regulation J, FedNow participants may not use

intermediaries, other than the Reserve Banks, for a funds transfer sent through the FedNow Service. This means that a funds transfer sent through the FedNow Service can include only two U.S. banks other than a Reserve Bank. Practically, this has meant that the service can be used only for domestic payments because participating banks located in the United States have been unable to send payments to additional banks outside the United States (such as correspondents).

When the Board announced the details of the FedNow Service in 2020, the Board stated that, “[i]n line with prioritization of a timely launch, the FedNow Service will only support domestic instant payments initially.”² The Board noted, however, that it would evaluate whether to expand the FedNow Service in the future to allow cross-border payments.³

II. Proposed Regulation J Amendments

Since the launch of the FedNow Service, participants have expressed interest in using the service to initiate or receive cross-border instant payments as a means of improving the speed and efficiency of cross-border payments. In response, the Board is proposing to amend Regulation J to allow FedNow participants to use intermediaries other than Reserve Banks, which is currently prohibited under Regulation J. The Board believes this change could support private-sector cross-border payment solutions, among other potential use cases, by allowing FedNow participants to leverage an intermediary (for example, a correspondent bank) for the international portion of a cross-border transaction and use the FedNow Service for the U.S.

² 85 Fed. Reg. 48522, 48527 (August 11, 2020).

³ *Id.*

domestic portion.⁴ This would make available a second real-time gross settlement payment rail to private-sector providers in addition to the Fedwire Funds Service.

The proposed amendments would align the FedNow Service with the Fedwire Funds Service, which has permitted intermediaries for decades. The changes would not alter the payment flow between FedNow Service participants or change which entities can connect to the service. Like the Fedwire Funds Service, the amendments would simply allow additional transfers before and after funds are sent through the FedNow Service, enabling participants to settle the U.S. domestic portion of larger cross-border transactions. The Board believes these proposed amendments do not create material new money laundering, sanctions evasion, or payment system integrity risks, as the correspondent payment model is substantially similar to how the Fedwire Funds Service operates today and has functioned successfully for years.

A. Reliance on Numbers Identifying Beneficiary and Intermediary Banks

Currently, section 210.42(a) only permits a Reserve Bank to rely on the number in the payment order identifying the beneficiary's bank. Under the proposal, a Reserve Bank would also be permitted to rely on a number identifying the intermediary bank, consistent with Article 4A of the Uniform Commercial Code (UCC). Specifically, a Reserve Bank, where it acts as receiving bank, would be able to rely on the routing number of an intermediary bank specified in a payment order as identifying the appropriate intermediary bank, even if the payment order

⁴ Correspondent banking generally consists of a bilateral arrangement under which one bank (the correspondent) holds deposits owned by other banks (respondents) and provides payment and other services to those respondent banks. Through such relationships, banks can access financial services in different jurisdictions and provide cross-border payment services to their customers. Bank for International Settlements, *Correspondent Banking* (2016), <https://www.bis.org/cpmi/publ/d147.pdf>.

identified another bank by name.⁵ The proposed language would mirror the corresponding rules governing the Fedwire Funds Service in subpart B of Regulation J.

B. Permitting Designation of Non-Reserve Bank Intermediary Banks

Currently, a FedNow participant may not send a payment order to a Reserve Bank that requires the Reserve Bank to issue a payment order to an intermediary bank other than another Reserve Bank. The Board is proposing to amend section 210.45(b) to permit a FedNow payment order to designate an intermediary bank other than a Reserve Bank. Additionally, the Board is proposing to make conforming amendments to the commentary to section 210.45.

C. Application of Regulation J's Funds-Availability Requirements

Currently, under section 210.44(b)(1), “[a] beneficiary’s bank (other than a Federal Reserve Bank) that accepts a payment order over the FedNow Service is obliged to pay the amount of the order to the beneficiary of the order immediately after its acceptance of the payment order, by crediting an account of the beneficiary in accordance with section 4A-405(a) of Article 4A.”

The Board is not proposing to amend section 210.44(b)(1). Accordingly, Regulation J’s immediate funds-availability requirement would apply only to funds transfers in which a beneficiary’s bank—not an intermediary bank—accepts a payment order over the FedNow Service. For example, in an outbound cross-border funds transfer, an intermediary bank (rather than the beneficiary’s bank) would accept a payment order over the FedNow Service, and the beneficiary’s bank (which would be located outside the United States) would not be obliged under Regulation J to make funds available immediately to the beneficiary. Conversely, if an

⁵ A Reserve Bank may rely on the routing number, provided the Reserve Bank did not know of any inconsistency between the routing number and the name of the bank identified. The proposed amendments would not change the language in section 201.42(a) permitting Reserve Banks to rely on a number identifying a beneficiary bank.

originator outside the United States initiates a cross-border funds transfer in which the beneficiary's bank accepts a payment order over the FedNow Service, then the beneficiary's bank (which would be located in the United States) would be obliged to make funds available immediately to the beneficiary.

Finally, the Board is proposing a clarifying revision to section 210.44(b)(3). Currently, where a FedNow Service participant, acting as a beneficiary bank, has reasonable cause to believe that the beneficiary is not entitled to or permitted to receive the payment, the beneficiary bank may notify its Reserve Bank that it requires additional time to determine whether to accept the payment order. With the proposed amendment to Regulation J to permit the use of non-Reserve Bank intermediary banks, the Board is also proposing to amend section 210.44(b)(3) to clarify its applicability only to FedNow Service participants.

III. Request for Comment

The Board requests comment on all aspects of the proposed amendments to Regulation J.

IV. Competitive Impact Analysis

The Board conducts a competitive impact analysis when it considers an operational or legal change, if that change would have a direct and material adverse effect on the ability of other service providers to compete with the Federal Reserve in providing similar services due to legal differences or due to the Federal Reserve's dominant market position deriving from such legal differences. All operational or legal changes having a substantial effect on payment system participants will be subject to a competitive impact analysis, even if competitive effects are not apparent on the face of the proposal. If such legal differences exist, the Board will assess whether the same objectives could be achieved by a modified proposal with less competitive impact or, if not, whether the benefits of the proposal (such as contributing to payment system

efficiency or integrity or other Board objectives) outweigh the materially adverse effect on competition.⁶

The Board does not believe that the proposed amendments to Regulation J will have a direct and material adverse effect on the ability of other service providers to compete effectively with the Reserve Banks in providing similar services due to legal differences. The proposed amendments do not govern similar services provided by private-sector providers and, accordingly, would not preclude a private-sector provider of similar payment services from facilitating cross-border payments. Therefore, the Board does not believe that the proposed amendments would affect the competitive position of private-sector providers vis-à-vis the Reserve Banks.

V. Administrative Law Matters

A. Paperwork Reduction Act

In accordance with the Paperwork Reduction Act (PRA) of 1995 (44 U.S.C. 3506; 5 CFR part 1320 Appendix A.1), the Board may not conduct or sponsor, and a respondent is not required to respond to, an information collection unless it displays a valid Office of Management and Budget (OMB) control number. The Board reviewed the proposed rule under the authority delegated to the Board by the OMB and determined that it contains no collections of information under the PRA.⁷ Accordingly, there is no paperwork burden associated with the proposed rule.

B. Regulatory Flexibility Act

The Regulatory Flexibility Act (the RFA) (5 U.S.C. 601 *et seq.*) requires agencies either to provide an initial regulatory flexibility analysis with a proposed rule or to certify that the

⁶ Federal Reserve Regulatory Service, 7-145.2.

⁷ See 44 U.S.C. 3502(3).

proposed rule will not have a significant economic impact on a substantial number of small entities.⁸ In accordance with section 3(a) of the RFA, the Board has reviewed the proposed amendment. In this case, the proposed amendment would apply to all depository institutions that choose to use the Reserve Bank's FedNow Service, but the Board does not believe it will have a significant economic impact on a substantial number of small entities. Nevertheless, this initial regulatory flexibility analysis has been prepared in accordance with 5 U.S.C. 603 for the Board to solicit comment on the effect of the proposal on small entities. An initial regulatory flexibility analysis must contain: (1) a description of the reasons why action by the agency is being considered; (2) a succinct statement of the objectives of, and legal basis for, the proposed rule; (3) a description of, and, where feasible, an estimate of the number of small entities to which the proposed rule will apply; (4) a description of the projected reporting, recordkeeping, and other compliance requirements of the proposed rule, including an estimate of the classes of small entities that will be subject to the requirement and the type of professional skills necessary for preparation of the report or record; (5) an identification, to the extent practicable, of all relevant Federal rules which may duplicate, overlap with, or conflict with the proposed rule; and (6) a description of any significant alternatives to the proposed rule which accomplish its stated objectives and minimize any significant economic impact of the proposed rule on small entities.⁹

⁸ Under regulations issued by the U.S. Small Business Administration ("SBA"), a small entity includes a depository institution, bank holding company, or savings and loan holding company with total assets of \$850 million or less. *See* 13 CFR 121.201. Consistent with the SBA's General Principles of Affiliation, the Board includes the assets of all domestic and foreign affiliates toward the applicable size threshold when determining whether to classify a particular entity as a small entity. *See* 13 CFR 121.103. As of the second quarter of 2025, there were approximately 2,796 small bank holding companies and approximately 157 small savings and loan holding companies, and approximately 443 small state member banks.

⁹ 5 U.S.C. 603(b)-(c).

The Board will, if necessary, conduct a final regulatory flexibility analysis after consideration of comments received during the public comment period.

1. Statement of the Need for, Objectives of, and Legal Basis for, the Proposed Rule.

The proposed amendments are intended to allow FedNow participants to initiate and receive cross-border payments. The proposed amendments are designed to accommodate FedNow participants' existing correspondent-respondent relationships and encourage innovative cross-border payment solutions.

The following sections of the Federal Reserve Act provide the Board with the legal basis for these amendments: section 13 (12 U.S.C. 342), paragraph (f) of section 19 (12 U.S.C. 464), paragraph 14 of section 16 (12 U.S.C. 248(o)), and paragraphs (i) and (j) of section 11 (12 U.S.C. 248(i) and (j)).

2. Small Entities Affected by the Proposed Rule.

The proposed amendments would apply to all depository institutions that choose to participate in the FedNow Service regardless of their size. Pursuant to regulations issued by the Small Business Administration (13 CFR 121.201), a small banking organization includes a depository institution with \$850 million or less in total assets.¹⁰ Based on call report data, there are approximately 7,040 depository institutions that have total domestic assets of \$850 million or less and thus are considered small entities for purposes of the RFA.

3. *Projected Reporting, Recordkeeping, and Other Compliance Requirements.*

¹⁰ For example, the SBA defines a commercial bank as small if it has \$850 million or less in assets. See 13 CFR 121.201.

Given that the proposed rule consists only of limited new service terms, there are no new projected reporting, recordkeeping, or other compliance requirements associated with the proposal.

4. *Identification of Duplicative, Overlapping, or Conflicting Federal Rules.*

The Board has not identified any likely duplication and/or potential conflict between the proposed regulatory amendments and any other Federal rule. Some overlap exists between existing subpart C of Regulation J and the Expedited Funds Availability Act (implemented in Regulation CC). Specifically, Regulation CC provides that funds received by a bank via an electronic payment shall be available for withdrawal not later than the business day after the banking day on which such funds are received. Existing subpart C of Regulation J establishes a faster—i.e., immediate—funds-availability requirement, but only for payments in which the beneficiary’s bank accepts a payment order over the FedNow Service. The regulatory overlap does not create conflicting federal rules and would not be changed by this proposal.

5. *Significant Alternatives to the Proposed Rule.*

The Board has not identified any regulatory burden associated with the proposed amendments to Regulation J, nor has the Board identified any significant alternatives that would reduce the regulatory burden on small entities.

Therefore, the Board believes that the proposed rule will not have a significant economic impact on a substantial number of small entities supervised by the Board.

The Board welcomes comment on all aspects of its analysis. In particular, the Board requests that commenters describe the nature of any impact on small entities and provide empirical data to illustrate and support the extent of the impact.

C. Solicitation of Comments on Use of Plain Language

Section 722 of the Gramm-Leach-Bliley Act (Pub. L. 106-102, 113 Stat. 1338, 1471, 12 U.S.C. 4809) requires the federal banking agencies to use plain language in all proposed and final rules published after January 1, 2000. The Board has sought to present the proposal in a simple and straightforward manner and invites comment on the use of plain language and whether any part of the proposal could be more clearly stated.

D. Providing Accountability Through Transparency

The Providing Accountability Through Transparency Act of 2023 (5 U.S.C. 553(b)(4)) requires that a notice of proposed rulemaking include the internet address of a summary of not more than 100 words in length of the proposed rule, in plain language, that shall be posted on the internet website under section 206(d) of the E-Government Act of 2002 (44 U.S.C. 3501 note).

The Board of Governors of the Federal Reserve System is proposing to amend subpart C of its Regulation J, which governs the Federal Reserve Banks' FedNow Service, to permit participants to use intermediary banks in addition to Federal Reserve Banks. This change would enable participants to leverage their correspondent banking networks for the U.S. domestic portion of cross-border transactions.

The proposal and the required summary can be found at <https://www.regulations.gov> and <https://www.federalreserve.gov/supervisionreg/reglisting.htm>.

List of Subjects in 12 CFR Part 210

Banks, Banking, Federal Reserve System.

For the reasons set forth in the preamble, the Board proposes to amend 12 CFR part 210 as follows:

1. Amend § 210.42(a) to read as follows:

(a) ***Reliance by a Federal Reserve Bank on number to identify an intermediary bank or beneficiary's bank.*** A Federal Reserve Bank that receives a payment order from a sender containing a number that identifies the intermediary bank or beneficiary's bank may rely on the number, even if it identifies a bank different from the bank identified by name in the payment order, if the Federal Reserve Bank does not know of such an inconsistency in identification. A Federal Reserve Bank has no duty to detect any such inconsistency in identification.

2. Amend the first sentence of § 210.44(b)(3) to read as follows:

(3) In circumstances where the beneficiary's bank (other than a Federal Reserve Bank) that has received a payment order over the FedNow Service has reasonable cause to believe that the beneficiary is not entitled or permitted to receive payment, the beneficiary's bank may notify its Federal Reserve Bank that it requires additional time to determine whether to accept the payment order.

3. Amend § 210.45(b) to read as follows:

(b) ***Selection of an intermediary bank.*** For an interdistrict transfer through the FedNow Service, a Federal Reserve Bank is authorized and directed to execute a payment order through another Federal Reserve Bank. A sender shall not send a payment order to a Federal Reserve Bank that requires the Federal Reserve Bank to send a payment order to an intermediary bank (other than a Federal Reserve Bank) unless that intermediary bank is designated in the sender's payment order. A sender shall not send to a Federal Reserve Bank a payment order through the FedNow Service that instructs use by a Federal Reserve Bank of a funds-transfer system or means of transmission other than the FedNow Service, unless the Federal Reserve Bank agrees with the sender in writing to follow such instructions.

4. In Appendix A of Subpart C of part 210 under “Section 210.45—Payment Orders”, amend paragraph (b)(2) to read as follows:

Appendix A of Subpart C of Part 210—Commentary

* * * * *

Section 210.45—Payment Orders

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(b) * * *

(2) This section provides that in an interdistrict transfer, a Federal Reserve Bank is authorized and directed to select another Federal Reserve Bank as an intermediary bank. A sender may, however, instruct a Federal Reserve Bank to use a particular intermediary bank by designating that bank as the bank to be credited by that Federal Reserve Bank (or the second Federal Reserve Bank in the case of an interdistrict transfer) in its payment order, in which case the Federal Reserve Bank will send the payment order to that bank if that bank receives payment orders through the FedNow Service. A sender may not instruct a Federal Reserve Bank to use its discretion to select an intermediary bank other than a Federal Reserve Bank or an intermediary bank designated by the sender. In addition, a sender may not send a payment order through the

FedNow Service that instructs a Federal Reserve Bank to use a funds-transfer system or means of transmission other than the FedNow Service, unless the sender and the Federal Reserve Bank agree in writing to the use of that funds-transfer system or means of transmission.

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By order of the Board of Governors of the Federal Reserve System,

Benjamin W McDonough,
Secretary of the Board.