

FEDERAL RESERVE SYSTEM

12 CFR Part 204

[Docket No. R-1893]

RIN 7100-AH25

Regulation D: Reserve Requirements of Depository Institutions

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Notice of proposed rulemaking.

SUMMARY: The Board of Governors of the Federal Reserve System (Board) proposes to amend its Regulation D (Reserve Requirements of Depository Institutions) to differentiate between master accounts and a proposed new category of special-purpose payment accounts (Payment Accounts).

The proposed amendments would exclude Payment Accounts from Regulation D's provisions directing Federal Reserve Banks (Reserve Banks) to pay interest on balances maintained at a Reserve Bank. As a result, the Reserve Banks would not pay interest on balances maintained in Payment Accounts. The proposal would not affect reserve requirement ratios, which would remain zero.

DATES: Comments must be received on or before **[INSERT DATE 60 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*]**.

ADDRESSES: You may submit comments, identified by Docket No. R-1893 and RIN 7100-AH25, by any of the following methods:

- *Agency Website:* <https://www.federalreserve.gov/apps/proposals/>. Follow the instructions for submitting comments, including attachments. ***Preferred Method.***
- *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 be not 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: Benjamin Snodgrass, Special Counsel (202-263-4877), Legal Division, or Kristen Payne, Lead Financial Institution and Policy Analyst (202-306-9573), or Mary-Frances Styczynski, Chief (202-617-7674), Division of Monetary Affairs. For users of TTY-TRS, please call 711 from any telephone, anywhere in the United States or (202) 263-4869.

SUPPLEMENTARY INFORMATION:

I. Overview

As described elsewhere in today's *Federal Register*, the Board is requesting comment on proposed updates to (1) the Federal Reserve's Policy on Payment System Risk (PSR Policy) and (2) the Board's guidelines for Reserve Banks to utilize in evaluating requests for access to Reserve Bank accounts and services (the Account Access Guidelines), to accommodate Payment Accounts. That request for comment (the Payment Account Notice) follows a request for

information (RFI) previously published by the Board.¹ The Payment Account would be a new, optional way for institutions to request access to accounts and services. As proposed in the Payment Account Notice, the Payment Account would have a standard set of risk-mitigating terms designed to create a lower residual risk profile than a master account.² The Board explains in the Payment Account Notice that the terms of the proposed Payment Account would permit a more streamlined review of requests for such accounts.³

In this notice of proposed rulemaking (NPR), the Board proposes to amend Regulation D to specify that Reserve Banks would not pay interest on balances maintained in Payment Accounts. As described in more detail below, the proposal is designed to control the size of Payment Account balances on the Federal Reserve’s balance sheet and align with the purpose of the Payment Account as a special-purpose account for clearing and settling payments. Relatedly, the Board is proposing in the Payment Account Notice to revise the PSR Policy to, among other things, establish a limit on balances that may be maintained in a Payment Account at the Federal Reserve’s daily close of business (a Closing Balance Limit).⁴ The amendments to Regulation D and the PSR Policy are both intended to control the size of Payment Account balances.

¹ 90 FR 60096 (Dec. 23, 2025).

² As used herein, the phrase “Payment Account terms” (and similar phrases) refers to the standard set of parameters of the Payment Account as proposed by the Board in proposed revisions to Regulation A, Regulation D, the Account Access Guidelines, and the PSR Policy and as would be implemented by the Reserve Banks through their Operating Circulars and other agreements.

³ Proposed revisions to the PSR Policy would provide that an institution generally may only maintain one account with a Reserve Bank, either a Payment Account or a master account.

⁴ The business day of Federal Reserve Financial Services is defined in Part II of the PSR Policy. It is the 24-hour period that begins immediately after the regularly scheduled close of business of the Fedwire® Funds Service (on days when the Fedwire Funds Service is open) and the FedNow® Service on all other days, including weekends and holidays (which, in both cases, is generally 7:00 PM ET). For the purposes of the Closing Balance Limit, the open of the Federal Reserve business day is the open of the FedNow Service Funds Transfer Business Day (generally 7:01 PM ET). “Fedwire” and “FedNow” are service marks of the Federal Reserve Banks. A list of marks related to financial services products that are offered to financial institutions by the Federal Reserve Banks is available at [FRBservices.org](https://frb.org/frb-services.org)®.

The Board also proposes to amend Regulation D to provide that Payment Account holders would not be able to participate in excess balance accounts (EBAs), which allow eligible institutions to maintain balances that are not being used for payments purposes in a limited-purpose account that pays interest. Permitting Payment Account holders to participate in EBAs could allow them to circumvent the zero interest rate on balances maintained in the Payment Account and the Closing Balance Limit.

This **Supplementary Information** comprises six sections. Section I provides a high-level overview of the proposal. Section II discusses the RFI and summarizes comments to the RFI germane to this NPR. Section III provides statutory and regulatory background. Section IV discusses the rationale for the proposal and describes the revisions the Board proposes to make to Regulation D. Section V solicits feedback on the proposal broadly and on questions regarding specific aspects of the proposal. Section VI addresses several administrative law matters.

II. Payment Account RFI and Comments Received

The RFI, published in the *Federal Register* on December 23, 2025, sought public input on a prototype Payment Account and potential updates to the Account Access Guidelines. The prototype Payment Account described in the RFI would be designed for the purpose of clearing and settling the Payment Account holder's payment activity. The Board explained that Payment Accounts would have a standard set of risk-mitigating terms. These terms included not receiving interest on balances maintained at a Reserve Bank and a limit on overnight balances. The Board invited comments on the benefits and drawbacks of not paying interest on overnight balances in a Payment Account.

The Board received 72 comments on the RFI. Commenters discussing the payment of interest included traditional banks and credit unions, money transmitters, non-traditional banking institutions, trade associations, academics, and others.

Of the commenters that addressed the payment of interest, many supported the Board's proposal in the RFI to pay zero interest on balances maintained in Payment Accounts. Some of these commenters noted that paying zero interest on Payment Account balances would be consistent with the limited purpose of Payment Accounts and discourage use of Payment Accounts as a store of value or investment. A number of commenters stated that paying zero interest would limit risks to monetary policy implementation and financial stability. Some of these commenters noted concerns about the banking sector, stating that institutions likely to seek Payment Accounts would not engage in traditional deposit taking and lending and that paying interest on Payment Account balances could draw deposits away from commercial banks, increase commercial banks' funding costs, and raise the cost of credit for the real economy. Commenters also suggested that paying zero interest could reduce inflows to and outflows from Payment Accounts during periods of stress and could reduce the effect of Payment Accounts on the Federal Reserve's balance sheet. Another commenter argued that paying zero interest was a way to preserve the Federal Reserve's financial and institutional independence. This commenter explained that, to the extent dollar-based stablecoins are widely adopted, stablecoins would be likely to displace non-interest-bearing physical U.S. currency and erode the Federal Reserve's low-cost funding base. Two commenters noted that not paying interest would align with how similar accounts are handled by other central banks.

Other commenters, while not necessarily opposed to paying zero interest, raised concerns. One commenter noted that, while the absence of interest would keep the use of

Payment Accounts in line with their purpose, the proposed Closing Balance Limit for each Payment Account holder would address this objective substantially on its own. Another commenter noted that paying zero interest could increase end-of-day balance minimization activity, adding operational complexity. A commenter also suggested that the absence of interest on Payment Account balances could introduce behavior that shifts activity to Payment Accounts in low-rate periods and away from Payment Accounts during high-rate periods.

A third set of commenters favored paying interest on balances held in Payment Accounts. Some of these commenters questioned the rationale supporting the disparate treatment of master account holders and Payment Account holders. Two commenters suggested that not paying interest could create an incentive for Payment Account holders to maintain insufficient balances in Payment Accounts. Commenters also argued in favor of paying interest on Payment Account balances to promote broader adoption of Payment Accounts and make them more economically feasible and attractive. A number of commenters discussed the payment of interest on balances maintained by stablecoin issuers, citing competition between differently organized issuers, opportunity costs for maintaining liquid reserves, and the potential for pass-through of interest by stablecoin issuers to establish a more direct link between monetary policy and household interest rates. Finally, a number of commenters suggested methods for the payment of interest on Payment Account balances. These included paying interest up to a threshold, phasing in interest after a Payment Account had been open for a year, and imposing targeted constraints rather than a blanket prohibition.

III. Statutory and Regulatory Background

Section 19(b)(12) of the Federal Reserve Act (FRA) provides that Reserve Banks may pay interest on balances maintained by or on behalf of certain institutions in an account at a

Reserve Bank at a rate or rates of interest not to exceed the general level of short-term interest rates.⁵ Institutions that are eligible to receive interest on their balances held at Reserve Banks (eligible institutions) include “depository institutions,” as defined in FRA section 19(b)(1), as well as any trust company, any corporation organized under FRA section 25A or having an agreement with the Board under FRA section 25, or any branch or agency of a foreign bank.⁶ This authority does not extend to all balances maintained at Reserve Banks, such as balances of the Federal Home Loan Banks and of certain other non-eligible institutions.⁷ There is no requirement in the statute that interest be paid to any eligible institution, nor is there any requirement that the same interest rate or rates be paid to all eligible institutions or on all balances of eligible institutions.

Section 19(b)(12)(B) of the FRA also provides that the Board may prescribe regulations concerning the payment of interest. Specifically, the Board may prescribe regulations concerning (1) the payment of earnings in accordance with section 19(b)(12); (2) the distribution of such earnings to eligible institutions; and (3) the responsibilities of eligible institutions, Federal Home Loan Banks, and the National Credit Union Administration Central Liquidity Facility with respect to the crediting and distribution of earnings attributable to balances maintained in a Reserve Bank by any such entity on behalf of eligible institutions.⁸

Regulation D § 204.10(a) provides that interest on balances maintained at Reserve Banks by or on behalf of an eligible institution shall be established by the Board, at a rate or rates not to

⁵ 12 U.S.C. 461(b)(12).

⁶ See 12 U.S.C. 461(b)(12)(C); *see also* 12 CFR 204.2(y) (defining “eligible institution”).

⁷ 12 U.S.C. 1435 (Federal Home Loan Banks); *see, e.g.*, 12 U.S.C. 1452(d) (Federal Home Loan Mortgage Corporation) and 22 U.S.C. 285d (Asian Development Bank).

⁸ See 12 U.S.C. 461(b)(12)(B).

exceed the general level of short-term interest rates.⁹ That section defines the terms “balance” and “short-term interest rates” and further provides that the payment of interest on balances under § 204.10(b) shall be subject to such other terms and conditions as the Board may prescribe. For balances maintained in an eligible institution’s master account, § 204.10(b)(1) provides that interest is the amount equal to the interest on reserve balances (IORB) rate on a day multiplied by the total balances maintained on that day.¹⁰ For purposes of IORB, § 204.10(b)(3) defines the term “master account.”¹¹ The definition excludes any term deposit, EBA, or any deposit account maintained with a Reserve Bank governed by an agreement that states the account is not a master account.¹²

Paragraphs (c), (d), and (e) of § 204.10 apply to pass-through balances, EBAs, and term deposits, respectively. Regulation D provides for pass-through arrangements to permit institutions to satisfy reserve requirements through a correspondent.¹³ Section 204.10(c) provides that a correspondent that is an eligible institution may pass back to its respondent interest paid on balances maintained to satisfy a reserve balance requirement of that respondent.¹⁴ It also provides that, with respect to a correspondent that is not an eligible institution, a Reserve Bank may pay interest only on the balances maintained to satisfy a reserve balance requirement of one or more respondents and that the correspondent must pass back to its respondents interest on

⁹ 12 CFR 204.10.

¹⁰ 12 CFR 204.10(b)(1).

¹¹ For additional detail on the definition of master account, see Section IV.B.1 below.

¹² 12 CFR 204.10(b)(3).

¹³ See 12 CFR 204.2(l) and 204.5(d). In a correspondent-respondent relationship, the correspondent bank provides banking services on behalf of the respondent bank. This often includes the correspondent bank executing payments on behalf of the respondent bank and its customers. A respondent bank typically maintains an account with its correspondent bank.

¹⁴ Regulation D defines “balance maintained to satisfy a reserve balance requirement” as the average balance held in an account at a Reserve Bank by or on behalf of an institution over a reserve maintenance period to satisfy a reserve balance requirement under Regulation D. 12 CFR 204.2(bb).

balances paid in the correspondent's account.¹⁵ Since March 2020, all reserve requirement ratios have been set at zero percent.¹⁶

Paragraph (d) of § 204.10 provides for EBAs.¹⁷ The Board authorized the creation of EBAs in 2009 to alleviate certain pressures on correspondent-respondent business relationships related to the difference between the federal funds rate and the interest rate paid at the time on excess reserves.¹⁸ An EBA is a limited-purpose account at a Reserve Bank managed by an agent and established for maintaining the balances of one or more institutions (participants) eligible to earn interest on balances held at a Reserve Bank.¹⁹ In an EBA arrangement, participants authorize an agent to transfer balances in and out of the EBA, and the balances held in the EBA are liabilities of the relevant Reserve Bank directly to the participants. As provided in paragraph (d)(3), balances maintained in an EBA may not be used for general payments or other activities. Pursuant to paragraph (d)(4), balances of eligible institutions maintained in an EBA earn interest at the IORB rate. Requests to be an EBA agent or participant are evaluated under

¹⁵ 12 CFR § 204.10(c).

¹⁶ *See* 85 FR 16525 (Mar. 24, 2020) (interim final rule); 86 FR 8853 (Feb. 10, 2021) (final rule).

¹⁷ 12 CFR § 204.10(d).

¹⁸ *See* 89 FR 100495, 100495 (Dec. 12, 2024) (citing 74 FR 5628, 5629 (Jan. 30, 2009)). When the Board authorized the creation of EBAs in 2009, balances maintained by depository institutions at a Reserve Bank were divided into required reserves (balances held to satisfy a reserve requirement) and excess reserves (balances maintained in excess of required reserves). Eligible institutions that were respondents of a pass-through correspondent could maintain excess balances as deposits with their correspondent or, alternatively, could instruct their correspondent to sweep their deposits into overnight investments in the federal funds market. Correspondents typically preferred the latter because it helped limit the size of their balance sheet and boosted their regulatory capital ratios. However, when the market rate of interest on federal funds was below the rate paid by Reserve Banks on excess balances, respondents had an incentive to shift the investment of their surplus funds away from the sale of federal funds (through their correspondents) and toward holding those funds directly as excess balances with the Reserve Banks, potentially disrupting established correspondent-respondent relationships.

¹⁹ *See id.* at 100496. After the Board set all reserve requirement ratios to zero percent in 2020, eliminating reserve requirements, the Board amended § 204.10(d) to specify that balances maintained in EBAs were no longer limited to “excess balances,” *see* 86 FR 29937, 29938 (June 4, 2021), but the Board retained the name “excess balance account.”

the Account Access Guidelines as requests for master accounts, and, as described in the Payment Account Notice, the Board does not propose to change that treatment going forward.²⁰

Paragraph (e) of § 204.10 addresses term deposits. A Reserve Bank may accept term deposits from eligible institutions subject to such terms and conditions as the Board may establish from time to time. Section 204.10(e) provides that term deposits will not satisfy any institution's reserve balance requirement and may not be used for general payments or settlement activities. Reserve Banks currently do not accept term deposits.²¹

IV. Proposed Revisions

The Board proposes to revise § 204.10 of Regulation D to specify that balances maintained in Payment Accounts would not receive interest and that Payment Account holders would not be able to participate in an EBA. As discussed in the Payment Account Notice, the Board also proposes therein to establish a Closing Balance Limit.

A. Rationale for Proposed Revisions

As explained in the Payment Account Notice, the Board has continued to monitor developments in the payments ecosystem since the Board issued the Account Access Guidelines, including the development of new financial products and technologies. Since then, the types of institutions seeking Federal Reserve accounts and services have continued to evolve. Several institutions focused on payments innovation have explained that they are interested in direct access to accounts and services, as opposed to having to rely on third-party intermediaries to access services, to reduce costs to their customers and reduce risks while increasing payment processing speed. The Board is proposing to create a Payment Account as a new, optional way

²⁰ In 2024, the Board clarified that such requests would be evaluated under the Account Access Guidelines. *See id.* at 100495.

²¹ 12 CFR § 204.10(e).

for institutions to request access to accounts and services to support private-sector payments innovation while prudently managing the risks identified in the Account Access Guidelines. To control the size of accounts on the Federal Reserve's balance sheet, Payment Accounts would not earn interest on balances and, as discussed in the Payment Account Notice, would be subject to a Closing Balance Limit.

The Board has considered the effects of paying zero interest on Payment Account balances on monetary policy implementation. The establishment of Payment Accounts may affect the overall size and composition of the consolidated balance sheet of Reserve Banks and thereby may affect the implementation of monetary policy. By paying zero interest, Payment Account balances should generally remain relatively small at the end of the business day and, therefore, should not account for a significant portion of the Federal Reserve's balance sheet. Minimizing the size of Payment Accounts would help ensure that their direct effect on Federal Reserve liabilities is modest and that the Federal Reserve would not have to expand its balance sheet significantly beyond what would otherwise be needed to efficiently and effectively implement monetary policy. However, the indirect effects of Payment Accounts on other Federal Reserve liabilities is difficult to assess and would depend on several factors, including: the characteristics of the Payment Account holders (i.e., their balance sheet composition and business models), the source of funds that flow into Payment Accounts (e.g., deposits at depository institutions, physical currency), and the amount of sweeping activity of Payment Account holders from commercial bank deposits to support higher intraday balances in Payment Accounts.

The Board believes that paying zero interest and establishing a Closing Balance Limit would support the goal of limiting balances in Payment Accounts. During non-stress periods, it is

likely that a zero interest rate will incentivize Payment Account holders to minimize Payment Account balances—potentially below the level of the Closing Balance Limit. During periods of general market stress, Payment Account holders may prefer to hold higher precautionary Payment Account balances than during non-stress periods, regardless of the interest rate paid on the Payment Account. In addition, there may be periods where the Payment Account holder has idiosyncratic incentives to hold higher balances at a Reserve Bank. In these periods, the Closing Balance Limit will further support minimizing balances in these accounts. Together, these two Payment Account terms—paying zero interest and the Closing Balance Limit—support the Board’s goal of minimizing the direct effects of Payment Accounts on the Federal Reserve balance sheet to only what is needed for efficient and effective implementation of monetary policy.

The Board has also considered the alternative of paying interest on balances in a Payment Account up to the Closing Balance Limit, either at the IORB rate or at the Federal Reserve’s overnight reverse repurchase operations (ON RRP) rate. The main rationale for paying interest would be to support control of the federal funds rate within the target range. The Board, however, believes that the risk to rate control of paying zero interest on Payment Account balances would be minimal. Additionally, to be consistent with the underlying purpose of the Payment Account to support the clearing and settling of payment activity rather than serving as a store of value, the Board believes it would be appropriate not to pay interest on the account balances.

The proposed revisions to Regulation D have been informed by comments received in response to the RFI. As summarized in Section II above, the views expressed differed among the commenters that discussed interest. A significant number of commenters supported the Board’s

zero-interest proposal in the RFI, citing both the purpose of Payment Accounts and potential effects on monetary policy and financial stability. Consistent with points raised by these commenters, the Board believes that paying zero interest, along with Closing Balance Limits, would (i) encourage Payment Account holders to not use Payment Accounts as a store of value or investment and (ii) 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.

The Board recognizes that many commenters recommended that the Board pay interest on all or a portion of balances maintained in Payment Accounts. Commenters raised a number of reasons for paying interest, including to: promote adoption of Payment Accounts; create parity between Payment Accounts and master accounts; and reduce an incentive for Payment Account holders to maintain insufficient balances to support settlement, liquidity management, and payment operations.

The Board believes that zero-interest Payment Accounts should be attractive as an option for accessing Federal Reserve accounts and services by uninsured depository institutions. Relatedly, in light of the limited purpose of Payment Accounts and the broader set of terms that will differentiate Payment Accounts and master accounts, the Board does not believe it is necessary to treat Payment Accounts and master accounts equivalently for purposes of interest.

With respect to the sufficiency of balances maintained in Payment Accounts, the Board believes that Payment Account holders—which would not have access to daylight overdrafts—will have a strong incentive to maintain sufficient balances in their accounts at the close of the Federal Reserve's business day in order to avoid having their payment orders rejected at the beginning of the next Federal Reserve business day. At the same time, paying zero interest

should incentivize Payment Account holders to limit balances in Payment Accounts to those necessary for payments.

B. Proposed Revisions to § 204.10 (Payment of Interest on Balances)

As described in more detail below, the Board proposes to amend § 204.10(b)(3) of Regulation D by revising the definition of “master account” to exclude Payment Accounts and adding a new definition of “payment account.” By virtue of this definitional change, balances maintained in Payment Accounts would not receive interest. The Board also proposes to amend § 204.10(d) to specify that Payment Account holders may not be EBA participants. Although the Board considered whether relevant amendments should be made to the provisions in § 204.10 regarding the payment of interest on pass-through balances and term deposits, the Board does not believe that any amendments are necessary.

1. Definitions of Master Account and Payment Account

Currently, § 204.10(b) provides for the payment of IORB only on balances maintained in “master accounts.” Paragraph (b)(2) defines master account using both a broad definition and a set of exceptions. The term master account means, for purposes of § 204.10(b), the record maintained by a Reserve Bank of the debtor-creditor relationship between the Reserve Bank and a single eligible institution with respect to deposit balances of the eligible institution that are maintained with the Reserve Bank. The term does not include a term deposit, an EBA, a joint account, or any deposit account maintained with a Reserve Bank governed by an agreement that states the account is not a master account.

A Payment Account would be a master account under the current definition, unless a Payment Account were governed by an agreement that states the account is not a master account. Given the existing ability to agree that an account is not a master account, it is not strictly

necessary for purposes of IORB to amend Regulation D to expressly exclude Payment Accounts from the definition of master account. However, the Board believes that adding a specific exclusion for Payment Accounts would be clearer than relying on a general exclusion that makes no reference to Payment Accounts. Accordingly, the Board proposes to revise § 204.10(b)(3) to specifically exclude Payment Accounts from the definition of master account. The Board does not believe that it is necessary to make further revisions to § 204.10(b). The only accounts eligible for IORB under paragraph (b) are master accounts, and excluding Payment Accounts from the definition of master account will exclude them from IORB eligibility thereunder.

The Board proposes to define the term “payment account” in new § 204.10(b)(4). Specifically, the Board proposes to define a Payment Account as the record maintained by a Federal Reserve Bank of the debtor-creditor relationship between the Reserve Bank and a single eligible institution with respect to deposit balances of the eligible institution that are maintained with the Reserve Bank and which is governed by an agreement that states the account is a Payment Account. The Board believes that tying the status of a Payment Account to an agreement between a Reserve Bank and a Payment Account holder draws a simple and clear-cut difference between master accounts and Payment Accounts.²²

2. EBAs

As described in Section III above, paragraph (d) of § 204.10 pertains to EBAs, which permit participants to hold excess balances in a limited-purpose account managed by an agent. Balances maintained in EBAs may not be used for general payments or other activities, but

²² In the Payment Account Notice, published elsewhere in today’s *Federal Register*, the Board describes a Payment Account as a special purpose account designed for the purpose of clearing and settling payments activity of an institution, its depositors, and its other customers. For purposes of Regulation D, the Board does not believe it is necessary to describe the functions of a Payment Account and that an agreement-based definition will be easy to administer by the Reserve Banks.

participants may ask their agents to transfer EBA balances to another account (such as that of a correspondent) for purposes of making payments. Section 204.10 does not set a limit on balances that may be maintained in an EBA and specifies that interest is paid on EBA balances at the IORB rate.

In connection with the Board's proposal to amend Regulation D to provide for zero interest on Payment Account balances and in connection with the Closing Balance Limit discussed in the Payment Account Notice, the Board also proposes to add a new subparagraph (d)(6) to § 204.10 to specify that a Payment Account holder would not be able to participate in an EBA.²³ As discussed above, the proposals to pay zero interest and to establish a Closing Balance Limit are designed to control the size of Payment Account balances on the Federal Reserve's balance sheet and to align the terms of the Payment Account with its nature as a special-purpose account for clearing and settling payments. If a Reserve Bank were able to approve a Payment Account holder as an EBA participant, the Payment Account holder may be able to circumvent these two terms of the Payment Account. For example, an EBA participant could instruct its agent to sweep large balances from the EBA into the Payment Account holder's Payment Account at the beginning of a Federal Reserve business day and sweep balances into the EBA at the end of the Federal Reserve business day. Since EBA balances are direct liabilities of a Reserve Bank to EBA participants, the entire EBA balance would constitute reserves. If this were to occur at scale, it could expand the Federal Reserve's balance sheet beyond what would otherwise be needed to efficiently and effectively implement monetary policy.

3. Pass-Through Balances and Term Deposits

²³ An institution must have a master account to be an EBA agent. *See* 12 CFR 204.10(d). In connection with the Board's proposal to define the term Payment Account and revise the term master account, the Board proposes to make a technical change to clarify that the term master account as used in § 204.10(d) has the same meaning as it does in § 204.10(b).

As described in Section III above, paragraphs (c) and (e) of § 204.10 pertain to interest on pass-through balances and term deposits. The Board does not believe any changes to those paragraphs are necessary with respect to Payment Accounts, for the reasons set forth below.

First, the Board does not believe that changes are needed to the treatment of pass-through balances in an environment in which reserve requirement ratios are zero. Section 204.10 of Regulation D provides that a pass-through correspondent that is an eligible institution under Regulation D may, but is not required to, pass back interest paid on balances maintained to satisfy a reserve balance requirement of its respondent. When the Board adopted a final rule regarding pass-through balances, the Board noted that requiring eligible institutions to pass back interest could interfere with existing correspondent-respondent relationships and that reserve deficiency charges were charged to correspondents regardless of whether the deficiency was attributable to a respondent.²⁴ The Board continues to believe that a correspondent and respondent should be able to negotiate the interest rate on balances maintained at the correspondent by the respondent. A pass-through correspondent must pass back interest if the correspondent is not an eligible institution. However, a Reserve Bank may pay interest only on balances maintained at a non-eligible institution to satisfy a reserve balance requirement of one or more respondents. All reserve requirement ratios are now zero, and no interest is paid to correspondents that are not eligible institutions.

Second, the Board does not believe changes are needed with respect to term deposits. The Reserve Banks do not currently accept term deposits. In addition, as described in Section III above, any term deposits are subject to such terms and conditions as the Board may establish

²⁴ 74 FR 25620, 25623–4 (May 29, 2009). Because all reserve requirement ratios are zero, no deficiency charges are imposed.

from time to time. Accordingly, were term deposits to be accepted by Reserve Banks in the future, the Board could establish terms and conditions with respect to acceptance of term deposits by institutions that also have Payment Accounts.

V. Request for Comment

The Board invites comment on all aspects of the proposed revisions. In addition, the Board invites feedback on the following specific questions related to the proposal:

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?

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

a. Would the payment of zero interest effectively mitigate the impact of Payment Account balances on the Federal Reserve's balance sheet?

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

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

d. The Board has proposed to revise paragraph (d) of § 204.10 to provide that 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)?

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?

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 Closing Balance Limit at the Federal Reserve's close of business.²⁵ The Closing Balance Limit would be set by the Reserve Bank based on expected payment activity, not to exceed \$1 billion.²⁶ A Closing Balance Limit and paying zero interest on Payment Accounts both serve to minimize the balances held in Payment Account and the direct impact Payment Accounts have

²⁵ See note 4 above.

²⁶ Payment account holders would be permitted to maintain balances in the account at the Federal Reserve's close of business only to provide sufficient liquidity for payment activity at the beginning of the next Federal Reserve business day. In setting the closing balance for an individual Payment Account, the Reserve Bank would analyze internal Reserve Bank data on the Payment Account holder's payment flows (if available), in particular at the beginning of the Federal Reserve's business day, and take into consideration periods of time when external sources of liquidity may be limited, such as during weekends and holidays. When setting the initial Closing Balance Limit for a Payment Account, internal Reserve Bank data may not be available, and the Reserve Bank would rely on information obtained by the Reserve Bank during its review of the institution's Payment Account request to conduct its analysis to set the initial Closing Balance Limit. In addition, the Payment Account holder would be able to provide the Reserve Bank forecasts and additional information related to expected daily variations in payments and growth in payments over time. The Reserve Bank would review an individual Payment Account's Closing Balance Limit at least annually, using Reserve Bank data and any forecasts and additional information provided by the Payment Account holder, to ensure the limit remains appropriately sized to support the Payment Account holder's payments at the open of the Federal Reserve business day. Notwithstanding the foregoing, an individual Payment Account's Closing Balance Limit would not exceed \$1 billion.

As further set forth in the Payment Account Notice, in unusual circumstances, a Reserve Bank would be able to permit, on a case-by-case basis, a Payment Account holder to temporarily exceed its Closing Balance Limit (such temporary balance, a Temporary Closing Amount). The Reserve Bank would consult with the Board before permitting a Payment Account's Temporary Closing Amount to exceed \$1 billion. The Reserve Bank would consult with the Board if it permitted a Payment Account's Temporary Closing Amount to be equal to or less than \$1 billion (but, for the avoidance of doubt, more than the relevant Payment Account's Closing Balance Limit) for two Federal Reserve business days.

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 both serve a similar purpose and have important interactions, should the Board consider codifying the Closing Balance Limit in Regulation D? Why or why not?

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

VI. Administrative Law Matters

A. Regulatory Flexibility Act

The Regulatory Flexibility Act, 5 U.S.C. 601 et seq. (RFA), requires an agency to consider the impact of its rules on small entities.²⁷ In connection with a proposed rule, the RFA generally requires an agency to prepare an Initial Regulatory Flexibility Analysis (IRFA) describing the impact of the rule on small entities, unless the head of the agency certifies that the proposal will not have a significant economic impact on a substantial number of small entities and publishes such certification along with a statement providing the factual basis for such certification in the *Federal Register*. An IRFA must contain (i) a description of the reasons why action by the agency is being considered; (ii) a succinct statement of the objectives of, and legal basis for, the proposal; (iii) a description of, and, where feasible, an estimate of the number of small entities to which the proposal will apply; (iv) a description of the projected reporting,

²⁷ 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.

recordkeeping, and other compliance requirements of the proposal, 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; (v) an identification, to the extent practicable, of all relevant Federal rules that may duplicate, overlap with, or conflict with the proposal; and (vi) a description of any significant alternatives to the proposal that accomplish its stated objectives and minimize any significant economic impact of the proposed rule on small entities.²⁸

The Board is providing an IRFA with respect to the proposal. The Board believes that the proposal will not have a significant economic impact on a substantial number of small entities. First, Payment Accounts would be a new, optional way for institutions to request access to Reserve Bank accounts and services, and therefore no existing account holders would be affected. Second, institutions would retain the option of requesting a master account or not requesting any account. It is possible that a small entity could become an EBA participant and subsequently request a Payment Account. Under the proposed amendments, the small entity would become ineligible to participate in an EBA upon becoming a Payment Account holder. However, as discussed above, Payment Accounts are optional and small entities could decide to access Federal Reserve services through a correspondent. The proposed changes to Regulation D, therefore, would not impose mandatory requirements on any small entities. The Board invites comment on all aspects of this IRFA.

In addition, as discussed in Section I above, the Board is proposing in the Payment Account Notice to revise the PSR Policy to, among other things, establish a Closing Balance Limit. In this NPR, the Board is requesting comment on whether the Board should consider

²⁸ 5 U.S.C. 603(b)-(c).

codifying the Closing Balance Limit in Regulation D. *See* Section V above (Question 3). As discussed in the Payment Account Notice, the Board believes that inclusion of the Closing Balance Limit in the PSR Policy would not have a significant economic impact on a substantial number of small entities. Codifying the Closing Balance Limit in Regulation D would not affect the Board's view, for the reasons discussed above.

1. Reasons Action is Being Considered

As discussed in this **Supplementary Information**, the Board is proposing to amend § 204.10 of Regulation D in connection with the Board's proposal to update the PSR Policy and Account Access Guidelines. The Board is also requesting public comment on whether to codify the Closing Balance Limit in Regulation D

2. Objectives of and Legal Basis for the Proposal

As discussed in this **Supplementary Information**, the proposed revisions to Regulation D relate to proposed amendments to the PSR Policy and Account Access Guidelines to accommodate Payment Accounts and would implement a proposed standard term applicable to all Payment Accounts. Section 19(b)(12)(B) of the FRA provides that the Board may prescribe regulations concerning the payment of interest on balances maintained by or on behalf of an eligible institution at a Reserve Bank.

With respect to the Closing Balance Limit, section 11(j) of the FRA authorizes the Board to exercise general supervision over the Reserve Banks, including their provision of accounts and services.²⁹ The Closing Balance Limit, whether in the PSR Policy or Regulation D, would support the Board's objective to foster the safety and efficiency of payment, clearing, settlement, and recording systems and to promote financial stability, more broadly.

²⁹ 12 U.S.C. 248(j).

3. Description and Estimate of the Number of Small Entities

The SBA has adopted size standards for determining whether a particular entity is a “small entity” for purposes of the RFA. The Board believes that the most appropriate SBA size standard to apply in determining whether a member bank, depository institution, or branch or agency of a foreign bank is a small entity is the SBA size standard for “commercial banking.” Under this standard, an entity engaged in commercial banking is considered a small entity if it has total assets of \$850 million or less.³⁰

The population of relevant commercial banks could potentially include all institutions that (1) are legally eligible for a Payment Account, (2) are eligible institutions as defined in Regulation D, and (3) do not have a master account or settle transactions in a correspondent’s master account.³¹ With respect to the Closing Balance Limit, the population of relevant commercial banks could potentially include all institutions that (1) are legally eligible for a Payment Account and (2) do not have a master account or settle transactions in a correspondent’s master account.

In both cases, the Board estimates that, as of the end of 2025, there are approximately 7,000 small entities, of which 6,800 already have a master account or access to financial services.³² Accordingly, the Board estimates that there are approximately 200 small entities that the proposed amendments to Regulation D and the Closing Balance Limit might affect, were these small entities to decide to request Payment Accounts.

³⁰ See 13 CFR 121.201.

³¹ The Board is making the simplifying assumption that Payment Account holders would be eligible institutions.

³² The Board assumes that small entities that currently have master accounts or settle transactions in a correspondent’s master account would not request a Payment Account.

4. Description of Compliance Requirements

The proposed amendments to § 204.10 would not impose reporting, recordkeeping, or other compliance requirements.

An individual Payment Account's Closing Balance Limit would be based on the Reserve Bank's analysis of the Payment Account holder's payment flows, using internal Reserve Bank data and any forecasts and additional information provided by the Payment Account holder.³³

5. Duplicative, Overlapping, and Conflicting Rules

The Board is not aware of any federal rules that may duplicate, overlap with, or conflict with the proposal.

6. Significant Alternatives Considered

As discussed in Section IV.A above, the Board considered proposing the payment of interest on balances up to the Closing Balance Limit discussed in the Payment Account Notice at the IORB or ON RRP rate. As discussed in the Payment Account Notice, the Board considered alternatives with respect to the Closing Balance Limit, such as setting the Closing Balance Limit to zero and calculating the Closing Balance Limit in a different manner.

The Board does not believe that any of these alternatives considered by the Board would have affected the economic impact on small entities, because the Payment Account would be a new, optional way for institutions to request access to Reserve Bank accounts and services, and the proposed changes would not impose mandatory requirements on any small entities.

Therefore, the Board believes that neither the proposed revisions to Regulation D nor the provisions of the PSR Policy regarding the Closing Balance Limit will have a significant economic impact on a substantial number of small entities supervised by the Board.

³³ See note 34 below for the estimated annual burden hours associated with setting the Closing Balance Limit.

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.

B. Paperwork Reduction Act

In accordance with the Paperwork Reduction Act (PRA) of 1995 (44 U.S.C. 3506; 5 CFR 1320 Appendix A.1), the Board reviewed the proposed rule under the authority delegated to the Board by the Office of Management and Budget (OMB). The proposed revisions contain no requirements subject to the PRA.

As discussed in Section I above, the Board is proposing in the Payment Account Notice to revise the PSR Policy and the Account Access Guidelines to accommodate Payment Accounts. The proposed revisions to the PSR Policy would, among other things, establish the Closing Balance Limit. In this NPR, the Board is requesting comment on whether the Board should consider codifying the Closing Balance Limit in Regulation D. *See* Section V above (Question 3).

Certain provisions of the Account Access Guidelines and PSR Policy contain “collections of information” within the meaning of the PRA subject to the PRA. The Board proposes in the Payment Account Notice to implement for three years the Disclosure Provisions Associated with the Payment System Risk Policy and Account Access Guidelines (FR 4103; OMB No. 7100-NEW) to account for these proposed revisions, as well as certain other information collections. Were the Board to codify the Closing Balance Limit in Regulation D, certain proposed revisions to the PSR Policy that contain collections of information may be codified in Regulation D.³⁴ To

³⁴ Pursuant to the Board’s proposed revisions to the PSR Policy, Payment Accounts would be subject to a Closing Balance Limit, which would be set by the Reserve Banks and reviewed at least annually. In order to initially set the Closing Balance Limit, a Reserve Bank would rely on information obtained by the Reserve Bank during its review of the institution’s Payment Account request under the Account Access Guidelines. Payment Account holders would

account for that possibility, the Board is inviting comments on those collections of information in this NPR, in addition to the request for comment in the Payment Account Notice. Comments are invited on:

- (a) whether the collection of information is necessary for the proper performance of the Board's functions, including whether the information has practical utility;
 - (b) the accuracy of the estimates of the burden of the information collection, including the validity of the methodology and assumptions used;
 - (c) ways to enhance the quality, utility, and clarity of the information to be collected;
 - (d) ways to minimize the burden of the information collection on respondents, including through the use of automated collection techniques or other forms of information technology;
- and
- (e) estimates of capital or start-up costs and costs of operation, maintenance, and purchase of services to provide information

Comments on aspects of this document that may affect reporting, recordkeeping, or disclosure requirements and burden estimates should be sent to the addresses listed in the **ADDRESSES** section. A copy of the comments may also be submitted to the OMB desk officer for the Agencies: By mail to U.S. Office of Management and Budget, 725 17th Street NW,

have an ongoing ability to submit additional data and information to support the Reserve Bank's determination of the individual Payment Account's Closing Balance Limit. The disclosure of this additional data and information would be voluntary. With respect to this ongoing ability to submit data and information, the Board estimates in the Payment Account Notice a total number of 34 respondents per year and an average of one hour per response, with responses occurring on an event-generated basis. Were the Closing Balance Limit to be codified in Regulation D, the ongoing ability to submit data and information may be set forth in Regulation D rather than the PSR Policy. The Board expects that information necessary to set an institution's initial Closing Balance Limit would continue to be obtained by a Reserve Bank during its review of the institution's Payment Account request under the Account Access Guidelines. In the Payment Account Notice, the Board provides estimates regarding the review of new access requests, which apply to requests for both master accounts and Payment Accounts. Specifically, the Board estimates a total number of 34 respondents per year and an average of 20 hours per response, with responses occurring on an event-generated basis.

#10235, Washington, DC 20503 or by facsimile to (202) 395-5806, Attention, Federal Banking Agency Desk Officer.

C. 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 Act of 2023

The Providing Accountability Through Transparency Act of 2023 (5 U.S.C. 553(b)(4)) requires that a NPR 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).

In summary, the Board proposes to amend its Regulation D (Reserve Requirements of Depository Institutions) to differentiate between master accounts and a proposed new category of special-purpose payment accounts (Payment Accounts). The proposed amendments would exclude Payment Accounts from Regulation D's provisions directing Federal Reserve Banks (Reserve Banks) to pay interest on balances maintained at a Reserve Bank. As a result, the Reserve Banks would not pay interest on balances maintained in Payment Accounts.

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

List of Subjects in 12 CFR Part 204

Banks, Banking, Reporting and recordkeeping requirements.

Authority and Issuance

For the reasons set forth in the preamble, the Board proposes to amend Regulation D, 12 CFR part 204, as follows:

PART 204—RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS (REGULATION D)

1. The authority citation for part 204 continues to read as follows:

Authority: 12 U.S.C. 248(a), 248(c), 461, 601, 611, and 3105.

2. Amend § 204.10 by:

a. Revising paragraph (b)(3);

b. Adding paragraph (b)(4); and

c. Adding paragraph (d)(6).

The revision and additions read as follows:

§ 204.10 Payment of interest on balances.

* * * * *

(b) * * *

(3) For purposes of § 204.10(b) and (d), a “master account” is the record maintained by a Federal Reserve Bank of the debtor-creditor relationship between the Federal Reserve Bank and a single eligible institution with respect to deposit balances of the eligible institution that are maintained with the Federal Reserve Bank. A “master account” is not a “term deposit,” an “excess balance account,” a “joint account,” a “payment account,” or any deposit account maintained with a Federal Reserve Bank governed by an agreement that states the account is not a master account.

(4) For purposes of § 204.10(b) and (d), a “payment account” is the record maintained by a Federal Reserve Bank of the debtor-creditor relationship between the Federal Reserve Bank and a single eligible institution with respect to deposit balances of the eligible institution that are maintained with the Federal Reserve Bank and which is governed by an agreement that states the account is a payment account.

* * * * *

(d) * * *

(6) A holder of a payment account may not participate in an excess balance account.

* * * * *

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

(signed) Benjamin W. McDonough

Benjamin W. McDonough,
Secretary of the Board.