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Embracing New Technologies and Players in Payments

Remarks by

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at

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Thank you, Susan, and good morning, everyone. It is my pleasure to welcome you to the Federal Reserve Board for our first Payments Innovation Conference.[1] My objective in creating this conference is twofold. First, I wanted to have a conference that focused on the new technologies that have come from the defi and crypto worlds and how they are entering the mainstream payments ecosystem. My goal is to have a vibrant discussion about payments between the traditional payment incumbents and the new entrants from the defi world. Second, I wanted to send a message that this is a new era for the Federal Reserve in payments—the defi industry is not viewed with suspicion or scorn. Rather, today, you are welcomed to the conversation on the future of payments in the United States and on our home field—something that would have been unimaginable a few years ago.

As you all know, we are well into a technology-driven revolution in payments, and I am here to say that the Federal Reserve intends to be an active part of that revolution.

A number of technological advances are transforming the payment system. Stablecoins and tokenized assets making use of distributed ledger technology. The rapid adoption of artificial intelligence (AI). And, increasingly, the convergence between these innovations and the traditional financial ecosystem. This includes the institutions and infrastructure that our economy has long depended on to operate a safe and efficient payment system. And, yes, this also includes the Federal Reserve. The revolution transforming payments is demanding change everywhere, and I will say more in a

[1] The views expressed here are my own and are not necessarily those of my colleagues on the Federal Reserve Board or the Federal Open Market Committee.

moment about some new ideas that the Federal Reserve is studying to support these innovations.

I have spoken before about what I see as the two broad models of payments innovation in our market economy.[2] The first is private-sector-driven innovation. Most innovation comes from the private sector, which is motivated and best positioned to allocate resources and take risks to explore new technologies. The second model is when public-sector entities such as the Fed build platforms and provide services that enable the private sector to more readily and rapidly expand new services to its customers. This should be done rarely and in limited circumstances where it addresses a specific market need. The posture of public institutions, including the Federal Reserve, should be to acknowledge and embrace private-sector innovation that can improve the payment system while preserving its safety and stability, which are as essential to the new generation of innovators as they are to legacy institutions.

Let me pull back a moment and remind everyone how we got here. Since nearly its founding, the Federal Reserve System has worked to facilitate payment and settlement system efficiency alongside the private sector. From the beginning, the clearing services provided by Reserve Banks obviated the need for daily movements of cash in armored cars with heavily armed guards. Long before we started speaking of the "payment rails" that are facilitating the kind of innovation we will be discussing today, the Fed was running trains on steel rails to deliver and clear paper checks traveling across the country. Fedwire began conducting interbank transfers through telegraph wires in the early 20th

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[2] See Christopher J. Waller (2025), "Technological Advancements in Payments," speech delivered at the Wyoming Blockchain Symposium 2025, Teton Village, Wyoming, August 20, https://www.federalreserve.gov/newsevents/speech/waller20250820a.htm.

century. Fast forward to today, where we have multiple infrastructures that settle interbank transfers in real time.

Today's conference will focus on private-sector-driven innovation. We have assembled 100 private-sector innovators who are leveraging cutting-edge technology to create new possibilities in the payments landscape. Our panelists are engaged in integrating traditional financial payment rails with distributed ledgers, developing new products and services in the digital asset ecosystem, and leveraging AI in the payments landscape.

It's worth noting that the firms engaged in these activities include banks, asset managers, retail payments firms, technology companies, as well as crypto-native fintechs. This is an acknowledgement that distributed ledgers and crypto-assets are no longer on the fringes but increasingly are woven into the fabric of the payment and financial systems.

Before we hear from these innovators, I would like to touch on the roles that the Federal Reserve plays to support the private sector. These include serving as a convener to solve coordination problems and operating core payment and settlement infrastructure. We are also looking ahead, conducting hands-on research on tokenization, smart contracts, and the intersection of AI and payments for use in our own payment systems. We do this to understand the innovation happening within the payment system as well as to evaluate whether these technologies could provide opportunities to upgrade our own payment infrastructures and to enable us to have deeper conversations with the industry on these new technologies.

While this is a good start, I believe we can and should do more to support those actively transforming the payment system. To that end, I have asked Federal Reserve staff to explore the idea of what I am calling a "payment account." Today, Federal Reserve Banks provide access to master accounts and financial services to legally eligible entities following our Guidelines for Evaluating Account and Services Requests. The payment account would be available to all institutions that are legally eligible for an account and could be beneficial for those focused primarily on payments innovations.

This payment account concept would be targeted to provide basic Federal Reserve payment services to legally eligible institutions that right now conduct payment services primarily through a third-party bank that has a full-fledged master account. There are many eligible firms engaged in substantial payments activities that may not want or need all the bells and whistles of a master account, or access to the full suite of Federal Reserve financial services, to successfully innovate and provide services to their customers. The idea is to tailor the services of these new accounts to the needs of these firms and the risks they present to the Federal Reserve Banks and the payment system. Accordingly, and importantly, these lower-risk payment accounts would have a streamlined timeline for review. Payments innovation moves fast, and the Federal Reserve needs to keep up.

To be more concrete, let me describe a possible prototype for this type of payment account or, as I sometimes call it, a "skinny" master account. The account would provide access to the Federal Reserve payment rails while controlling for various risks to the Federal Reserve and the payment system. To control the size of the accounts and associated impacts on the Fed's balance sheet, the Reserve Banks would not pay interest on balances in a payment account, and balance caps may be imposed. These accounts would not have daylight overdraft privileges—if the balance hits zero, payments will be rejected. They would not be eligible for discount window borrowing or have access to all Federal Reserve payment services for which the Reserve Banks cannot control the risk of daylight overdrafts. I want to be clear that this is just a prototype idea to provide some clarity on how things could change. The upshot is that, in my view, the payments landscape, as well as the types of providers, has evolved dramatically in recent years, and, accordingly, a new payments account could better reflect this new reality.

As Federal Reserve staff examine this idea, we will engage with all interested stakeholders to hear perspectives on the benefits and drawbacks to this approach. You will be hearing more about this shortly.

Let me wrap up here so we can get to the really exciting part of this conference, which is about innovation and the future of payments. Thank you to the panelists who took the time to participate, those in the audience who agreed to be here, and the many others watching online. And a special thanks to Fed staff, who moved very fast to get this together quickly to fit into a very busy fall at the Fed. On with the conference!