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February 6, 2026

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

**Re: Request for Information and Comment on Reserve Bank Payment Account Prototype
[Docket No. OP-1877]**

Dear Mr. McDonough:

The Independent Community Bankers of America (ICBA)¹ appreciates the opportunity to respond to the Board of Governors of the Federal Reserve System (the Board or the Federal Reserve)'s request for information and comment on a special purpose Reserve Bank account prototype (Payment Account).

ICBA has significant concerns about expanding direct Federal Reserve account access to institutions that operate outside the traditional banking regulatory framework. If the Federal Reserve chooses to grant access to the payment system to these institutions, a highly constrained Payment Account presents fewer risks than a full Master Account. However, as set forth in the request for information, it is not clear that Payment Accounts will be subject to sufficient guardrails or subject to a true "prototype" program – where the number of approved applicants is limited, time-barred, and subject to program enhancements to tighten regulatory scrutiny or off-ramp approved applicants, if necessary. ICBA urges the Board to design measures for the Payment Account prototype to ensure there is a built-in review structure and clear off-ramps if risks materialize.

Summary of the Proposal

The Board is seeking comment on a new type of Reserve Bank account, called a Payment Account, that would allow legally eligible institutions to access certain Federal Reserve payment services without obtaining a full Master Account. The proposal is intended to address concerns raised by institutions with novel business models, including some crypto-focused entities and fintech companies, that have sought direct access to Federal Reserve payment rails but have experienced lengthy review periods or denials when applying for Master Accounts.

The Payment Account prototype includes several features designed to reduce risk compared to a full Master Account. Payment Account holders would not have access to the discount window or intraday credit, would not be eligible for interest on balances, would be subject to an overnight balance limit, and would be restricted to using the Fedwire Funds Service, National Settlement Service, FedNow Service, and Fedwire Securities Service for free transfers only. Payment Accounts could only be used to settle an institution's own payment activity and could not be used for correspondent banking activities.

¹ The Independent Community Bankers of America® has one mission: to create and promote an environment where community banks flourish. We power the potential of the nation's community banks through effective advocacy, education, and innovation. As local and trusted sources of credit, America's community banks leverage their relationship-based business model and innovative offerings to channel deposits into the neighborhoods they serve, creating jobs, fostering economic prosperity, and fueling their customers' financial goals and dreams.

Payment Accounts would be available only to institutions currently eligible for Master Account access under the Federal Reserve Act. The prototype does not expand or change legal eligibility requirements. Applicants would be subject to a review process that Reserve Banks would generally be expected to complete within 90 calendar days of receiving all requested documentation.

ICBA Response

ICBA has significant concerns about expanding direct Federal Reserve account access to institutions that operate outside the traditional banking regulatory framework. The request for information describes guardrails for Payment Accounts that could reduce certain risks compared to full Master Accounts. However, the prototype set forth in the request for information does not address all the risks that could emerge from granting direct access to entities without comprehensive federal supervision. For example, banks currently perform critical risk management functions, including anti-money laundering and countering the financing of terrorism (AML/CFT), Bank Secrecy Act (BSA), and sanctions screening. If entities obtain direct access through Payment Accounts, institutions that may lack comparable oversight, expertise or resources to banks may be unable to fulfill these same responsibilities.

If the Board proceeds with this prototype, the Board must ensure the program is not a prototype in name only, but is instead structured as a genuine pilot program with stated desired outcomes, explicit account approval criteria, clear limits, strong enforcement mechanisms, mandatory evaluation points, “off-ramp” mechanisms, and transparency requirements. The program should also be time-barred in the event it is not successful. Each of these elements should be publicly communicated before a prototype program is launched. Without such safeguards, Payment Accounts could create an uneven playing field and introduce material vulnerabilities to the payment system.

Below are ICBA’s responses to the specific questions posed in the RFI:

1. Would the design of the Payment Account prototype support payment activities of eligible institutions?

ICBA agrees that the Payment Account prototype’s narrow design confines access to a limited set of payment functions. By restricting the account to own-account settlement only, prohibiting daylight overdrafts, excluding discount window access, eliminating interest, and permitting only a limited set of Federal Reserve services, the proposal attempts to minimize credit, liquidity, and operational risks to the Federal Reserve and the broader payment system.

For banks, this structure does not materially alter existing access channels. For legally eligible but nonbank institutions, the prototype provides a constrained settlement mechanism without extending the privileges of a full Master Account. This distinction is essential. ICBA has repeatedly emphasized that access to Federal Reserve accounts should remain tied to strong prudential oversight and that lightly regulated entities should not receive the same comprehensive access as insured depository institutions.

Given this, ICBA finds that the Payment Account prototype can support a narrow set of payment activities for entities only under carefully controlled conditions. However, because the Federal Reserve acknowledges this is a prototype, ICBA strongly recommends that access not be made broadly available at this stage. A limited rollout is necessary while the Federal Reserve refines: supervisory expectations for entities, especially those with novel or evolving business models; eligibility transparency and consistency across the 12 Reserve Banks, an area where ICBA has urged greater clarity and Board-level involvement; and ongoing monitoring, AML, BSA, CFT obligations, and operational resilience standards before any expansion.

A phased, prototype-first approach will allow the Federal Reserve to validate that these controls function as intended, particularly automated overdraft rejection, overnight balance caps, and the exclusion of correspondent activity, before considering any broader deployment. Furthermore, an off-ramp should be planned, outlined, and publicly communicated to address the possibility that these accounts prove to introduce additional risks to the payment system without a viable means to mitigate those risks.

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

The Payment Account prototype is most suitable for facilitating payment activities that are strictly limited to prefunded, own-account settlement. Entities that qualify for this prototype would be able to conduct real-time and high-value payments through Fedwire Funds, the National Settlement Service, the FedNow Service, and Fedwire Securities Service for free transfers only, provided those transactions are fully funded at the time of initiation. Because these services include automated rejection of any transaction that would result in an overdraft, they align well with the prototype's requirement that balances never fall below zero and that no intraday credit be extended.

However, the Payment Account prototype is not well suited to use cases that require broader functionality or activities performed on behalf of third parties. The account cannot support correspondent banking activities, since entities are prohibited from settling transactions for respondent institutions. It also cannot support ACH transactions, check clearing, FedCash access, or transfer-against-payment activity in the securities services, because these functions require risk controls or automated mechanisms that the current prototype does not permit.

The Payment Account prototype facilitates only a narrow range of payment activity. It may benefit entities that need direct, low-risk access to certain settlement rails for their own transactions, but any prototype must prevent new entrants from developing activities that could resemble full-service banking without the corresponding prudential oversight.

3. What barriers to innovation in payments would a Payment Account eliminate or alleviate?

The Board's request for information and comment does not describe any specific barriers to innovation that require a new type of Reserve Bank account to be created. The request for information and comment cites the length of time it takes to review requests for Master Accounts and the likelihood of denial, but it does not reference any substantive concerns related to innovation. The Board should clearly articulate any barriers to innovation that require a new type of Reserve Bank account to be created.

In addition, ICBA believes it is essential to recognize that correspondent banks currently perform a significant risk-management function. When a bank serves as a correspondent, it applies its own prudential oversight, including BSA, AML, sanctions, operational, and cyber risk controls, which provides an additional layer of protection for the payment system. If entities obtain direct access through Payment Accounts, these risk-management obligations shift entirely onto the entity itself. This shift does not reduce the overall need for risk and compliance controls; it simply moves the responsibility from a supervised bank to an entity that may have less oversight, fewer resources, or a more limited compliance infrastructure.

Even if the Payment Account prototype could help reduce certain innovation frictions, it must do so without undercutting the important risk-management role that banks have historically played when providing correspondent services. These frictions are undefined; ICBA cannot comment on any specific perceived barriers without better understanding what concerns the prototype seeks to address. Regardless, preserving strong

supervisory standards and ensuring that entities fully bear the risks and responsibilities of direct access are essential for maintaining fairness, safety, and stability across the payments system.

4. Would the design of the Payment Account prototype potentially increase the range of risks to the payment system identified in the Guidelines? If so, in what ways?

The Payment Account prototype's narrow design includes important safeguards: limiting services, prohibiting daylight overdrafts, restricting balances, and requiring prefunded transactions. These constraints reduce credit and liquidity risk by ensuring the Federal Reserve does not extend intraday credit and that entities cannot use these accounts for broader banking activities. However, these design features alone do not eliminate the broader risks associated with granting direct access to legally eligible but nonbank entities.

As noted in Question 3, the prototype reallocates risk management responsibilities away from the correspondent bank channel, which is supported by federal prudential supervision, and onto entities that may lack comparable oversight infrastructure. Unless the Federal Reserve applies supervisory expectations and ongoing oversight that equal or exceed what correspondent banks provide today, the introduction of Payment Accounts could increase aggregate risk in the payment system. Potential concerns include operational, cyber, illicit finance, and financial stability risks, particularly if entities grow rapidly or if their business models evolve in ways that outpace supervisory expectations.

ICBA has long cautioned that granting access to entities with novel business models or limited federal oversight can create new vulnerabilities. Past comments have emphasized the need for clear eligibility rules, consistent application of supervisory standards across the 12 Reserve Banks, and Board-level involvement for higher-risk applicants. The Payment Account prototype should not enable regulatory arbitrage or allow entities to bypass the prudential framework that governs banks. Strong supervision, consistent application across Reserve Banks, and the ability to revoke access if risks emerge are essential for ensuring that this prototype does not inadvertently weaken the safety, soundness, or integrity of the payments system.

5. What are the benefits and challenges of imposing an overnight balance limit on a Payment Account? Are there adjustments to the proposed formula for setting the balance limit that the Board should consider if it decides to establish a Payment Account?

The overnight balance limit is one of the most important risk controls in the Payment Account prototype. The RFI proposes capping balances at the lesser of \$500 million or 10 percent of an entity's total assets. This limit would help ensure that Payment Accounts are used for settlement rather than becoming deposit substitutes. It could limit the potential impact on the Federal Reserve's balance sheet, reduce the risk of distorting monetary policy, and prevent entities from simply parking funds at the Federal Reserve.

The effectiveness of this limit will depend on enforcement. The RFI mentions counseling, penalty fees, and service restrictions but does not provide details. ICBA recommends a clear enforcement approach with escalating consequences for violations, as well as an ultimate off-ramp if the limit ultimately proves unenforceable. Without specific consequences that are applied consistently across all 12 Reserve Banks, the overnight balance limit becomes less effective.

There is also room for additional clarity and adjustments to the proposed formula. First, the Board should address what happens when an entity's total asset size changes. Second, the Board should consider whether \$500 million is appropriate for a pilot program. Starting with a lower cap (such as \$250 million) would reduce risk during the initial phase and allow closer monitoring. Finally, the Board should consider an aggregate cap across all Payment

Accounts to limit the total exposure on the Federal Reserve's balance sheet.

6. What are the benefits and drawbacks of paying no interest on overnight balances in a Payment Account?

Not paying interest on Payment Account balances is consistent with the prototype's purpose. By eliminating interest, the Federal Reserve removes the incentive for entities to maintain large overnight balances. This supports the overnight balance limit and helps ensure these accounts stay focused on settling payments rather than becoming a place to store funds. It also reduces the risk that Payment Accounts could pull deposits out of the banking system.

Despite this no-interest provision, however, ICBA is concerned the prototype could facilitate competitive imbalances that disfavor community banks. Even without earning interest, Payment Accounts could allow entities to offer payment services at lower costs than banks because they would not face the same regulatory requirements and expenses, capital standards, or deposit insurance assessments. This creates an uneven playing field regardless of whether interest is paid.

7. How might the Federal Reserve condition access to a Payment Account on the applicant having an acceptable AML, Bank Secrecy Act (BSA) and Countering the Financing of Terrorism (CFT) compliance programs and, more generally, how can the Federal Reserve best constrain AML/BSA/CFT risks associated with a Payment Account?

ICBA is concerned the request for information and comment lacks sufficient detail about how the Federal Reserve will address money laundering and terrorist financing risks.² The language about "exploring additional risk controls" does not provide specificity, particularly given that Payment Accounts would provide entities direct access to real-time systems like FedNow and Fedwire that can move money instantly.

As discussed in Question 3, banks perform critical AML, BSA, and sanctions screening as part of their federally supervised responsibilities. If nonbank entities shift to Payment Accounts, those responsibilities transfer entirely to the entity. The Federal Reserve should establish specific, mandatory requirements that apply to all Payment Account holders. Unless the Federal Reserve ensures that Payment Account holders meet the same rigorous standards as banks, these accounts could create new vulnerabilities for illicit finance.

Beyond these baseline requirements, ICBA recommends transaction limits during a limited and time-barred initial trial period. High transaction volumes can be associated with money laundering. The Federal Reserve should establish appropriate limits and increase them gradually as entities demonstrate full compliance. The Board should also establish clear consequences for noncompliance, i.e. "off-ramps" from the prototype that include eventual suspension and termination.

8. Are there additional features or limits that the Board should consider in the design of the Payment Account prototype?

To treat this as a genuine prototype, and not a prototype in name only, the Federal Reserve should build in

² As Governor Barr noted in a statement, the request for information and comment "is not sufficiently specific about safeguards to protect against the accounts being used for money laundering and terrorist financing by institutions [the Federal Reserve does] not supervise." Statement on Payment Account Request for Information by Governor Michael S. Barr, Board of Governors of the Federal Reserve System, <https://www.federalreserve.gov/newsevents/pressreleases/barr-statement-20251219.htm> (Dec. 19, 2025).

structural features that distinguish it from a permanent program. This means establishing limits and checkpoints at the outset rather than attempting to introduce them only after problems arise.

First, the Federal Reserve should establish a numerical cap on the number of accounts. ICBA recommends limiting Payment Accounts to a small total number across the entire Federal Reserve System for the first three years. This keeps the prototype small enough to carefully monitor and encourages the Reserve Banks to be selective about who receives access. If there are only a limited number of slots available, applications will receive appropriate scrutiny.

Second, the approval process needs more clarity. The Board should publish clear documentation requirements and evaluation criteria so applicants know what to expect. Additionally, the Board should clarify that Payment Accounts are not a path to Master Accounts. If an entity wants a Master Account, it should meet those standards from the beginning, including obtaining federal deposit insurance.

Third, the Federal Reserve should commit to regular public reporting. At a minimum, quarterly disclosure of basic pilot statistics, including the number of applications in review, approval or denial status, the names of applicants, and features of applications that are approved or denied would provide some measure of transparency and accountability into the pilot.

Fourth, the Federal Reserve should establish clear off-ramps. The Board should specify and publicly communicate specific desired outcomes, evaluation criteria, and conditions that would trigger a pause or termination of the pilot. If serious problems emerge or the pilot does not achieve its desired outcomes, the Federal Reserve must be able to stop the program. Establishing these conditions now demonstrates that the Federal Reserve is treating this as a genuine prototype.

Finally, the Federal Reserve should commit to a mandatory conclusion and review of the prototype after three years. The review should assess whether the prototype achieved its objectives, whether risks emerged, and whether it should continue. The decision to continue the program should not be automatic and should be made only after an appropriate public review and comment period.

Thank you for the opportunity to provide information and comment on the Payment Account prototype. ICBA looks forward to continuing to work with the Board to ensure that the payment system remains fast, efficient, and safe. Should you wish to discuss our comments in further detail, please feel free to contact Scott Anchin at scott.anchin@icba.org and Lance Noggle at lance.noggle@icba.org.

Sincerely,

/s/

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/s/

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