BETTER MARKETS

July 27, 2026

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

Re: Proposed Revisions to the Federal Reserve Policy on Payment System Risk and the Guidelines for Account and Services Requests (May 26, 2026), Docket No. OP-1878; Regulation A: Extensions of Credit by Federal Reserve Banks (May 26, 2026), 12 CFR Part 201, Docket No. R-1892, RIN 7100-AH24; and Regulation D: Reserve Requirements of Depository Institutions (May 26, 2026), 12 CFR Part 204, Docket No. R-1893, RIN 7100-AH25

Dear Secretary McDonough:

Better Markets[1] appreciates the opportunity to comment on the Board of Governors of the Federal Reserve System ("Board") proposal ("Proposal")[2] to authorize the Federal Reserve Banks ("Reserve Banks") to offer special-purpose payment accounts ("Payment Accounts") for clearing and settling payments to legally eligible institutions—in practice, uninsured special-purpose charters and other novel institutions that function as non-depository payment companies—under a set of standardized terms and restrictions. Better Markets also appreciates the opportunity to comment on two corresponding proposals that would ban Payment Accounts from accessing the Federal Reserve's discount window and from earning interest on their account balances (collectively, the "Proposals").[3]

1 Better Markets is a non-profit, non-partisan, and independent organization founded in the wake of the 2008 financial crisis to promote the public interest in the financial markets, support the financial reform of Wall Street, and make our financial system work for all Americans again. Better Markets works with allies—including many in finance—to promote pro-market, pro-business, and pro-growth policies that help build a stronger, safer financial system that protects and promotes Americans' jobs, savings, retirements, and more.

2 *See* Federal Reserve Board. Proposed Rule. *Proposed Revisions to the Federal Reserve Policy on Payment System Risk and the Guidelines for Account and Services Requests*, 91 FR 30627 (May 26, 2026) (Docket No. OP-1878); available at: https://www.federalregister.gov/documents/2026/05/26/2026-10375/proposed-revisions-to-the-federal-reserve-policy-on-payment-system-risk-and-the-guidelines-for.

3 *See* Federal Reserve Board. Proposed Rule. *Regulation A: Extensions of Credit by Federal Reserve Banks*, 91 FR 30498 (May 26, 2026), available at: https://www.federalregister.gov/documents/2026/05/26/2026-10376/regulation-a-extensions-of-credit-by-federal-reserve-banks; and Federal Reserve Board. Proposed Rule. *Regulation D: Reserve Requirements of Depository Institutions*, 91 FR 30503 (May 26, 2026), available at: https://www.federalregister.gov/documents/2026/05/26/2026-10377/regulation-d-reserve-requirements-of-depository-institutions.

Better Markets Supports Innovation in the Payments System That Benefits Consumers and Businesses

Better Markets strongly supports innovation that makes the payments system faster, cheaper, more competitive, and more accessible for consumers, businesses, and communities. The question presented by this Proposal is whether payments innovation should occur through public payment infrastructure operating through regulated financial institutions or through direct access to the Federal Reserve's payment system by new categories of nonbank entities operating outside the traditional banking framework.

The Board answered that question in 2019 (by a 4-1 vote, including by then-Chair Powell and then-Governor Bowman[4]), when the Board voted to develop the FedNow Service ("FedNow"), a public instant payments infrastructure designed to enable real-time payments throughout the banking system.[5] The Board concluded that a Federal Reserve-operated instant payment service would promote competition, improve access to faster payments, reduce payment frictions, and lessen reliance on a small number of dominant private-sector payment providers. The decision received support from Governors appointed by both political parties, reflecting a broad consensus that public payment infrastructure could modernize the payments system while preserving the safety, soundness, and stability of the banking system.

FedNow represents a model of innovation that operates within the existing regulatory framework. It delivers faster payments without requiring special access for lightly regulated entities; promotes competition without encouraging regulatory arbitrage; and expands consumer benefits while maintaining the prudential safeguards, supervisory oversight, anti-money laundering controls, and consumer protections associated with regulated financial institutions.

Yet the Proposal repeatedly invokes "innovation"[6] as a justification for expanding access to the Federal Reserve's payment infrastructure while largely ignoring the public infrastructure the Board already operates and administers. The Proposal does not explain why broader adoption of

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4 Governor Bowman supported FedNow because she believed a Federal Reserve-operated instant payment infrastructure would promote nationwide access, support community banks, and ensure that payment innovation was available to institutions of all sizes rather than being limited to a small number of large providers. *See* Governor Michelle W. Bowman. "Direction of Supervision: Impact of Payment System Innovation on Community Banks" (February 27, 2020), available at: https://www.federalreserve.gov/newsevents/speech/bowman20200227a.htm.

5 *See* Federal Reserve Board. "Federal Reserve announces plan to develop a new round-the-clock real-time payment and settlement service to support faster payments" (August 5, 2019), available at: https://www.federalreserve.gov/newsevents/pressreleases/other20190805a.htm. *See also* Phillip Basil. "The Federal Reserve's FedNow Instant Payments Service Will Provide Great Benefits but Must Also Consider Enhanced Protections" (September 9, 2021), available at: https://bettermarkets.org/newsroom/federal-reserve-s-fednow-instant-payments-service-will-provide-great-benefits-must-also/.

6 *Supra* 2 at 30630. "The Board's goal is to support private-sector innovation in payments while ensuring that the risks identified in the Account Access Guidelines continue to be managed prudently."

FedNow, increased participation by regulated depository institutions and credit unions, or other enhancements to existing public payment rails would be insufficient to achieve the Board's stated objectives. The Proposal also does not explain why direct access for new categories of nonbank participants is preferable to continued investment in and expansion of the public infrastructure that the Board previously identified as the appropriate vehicle for payments modernization.

If the Board believes that direct access by nonbank entities is necessary to promote innovation, it must explain why the innovation benefits expected from FedNow have proven inadequate, what specific market failures remain unresolved, what alternatives the Board considered, and why those alternatives were rejected. The Proposal contains no such analysis.

Accordingly, the Board should provide a detailed explanation of why strengthening and expanding FedNow is not a superior alternative to the approach proposed here. Absent such an explanation, the Proposal fails to justify why the Federal Reserve should depart from the public-infrastructure model of payments innovation that it previously endorsed and continues to operate today.[7]

The Proposals Should Be Withdrawn and the Federal Reserve Should Focus on Strengthening the Nation's Public Payment Systems

As Better Markets has previously commented to the Board on its Request for Information ("RFI") on this subject,[8] the Proposals would unnecessarily expand the public benefits of the Board's payments system without a sound public policy justification, effectively extending access to Federal Reserve infrastructure historically reserved for depository institutions to non-depository payment companies, which are often involved in cryptocurrency and other digital assets.

Historically, expansions of access to Federal Reserve accounts and services have come through explicit Congressional action—from the Federal Reserve Act's original grant of access to member banks; to the Monetary Control Act's extension of priced services to all depository institutions in 1980; and to the Dodd-Frank Act's authorization of accounts for designated financial

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7 *See Motor Vehicle Manufacturers Association v. State Farm, Mut. Auto. Ins. Co.,* 463 U.S. 29, 43 (1983). Under *State Farm*, an agency must "examine the relevant data and articulate a satisfactory explanation for its action." An agency acts arbitrarily and capriciously when it "entirely fail[s] to consider an important aspect of the problem." The Board's failure to analyze the financial stability consequences of Payment Accounts raises precisely that concern. *See also FCC v. Fox Television Stations, Inc*., 556 U.S. 502, 515 (2009) (an agency changing course must "display awareness that it is changing position" and "show that there are good reasons for the new policy"); *Encino Motorcars, LLC v. Navarro*, 579 U.S. 211, 221–22 (2016) (a policy change is arbitrary and capricious where the agency disregards the "serious reliance interests" engendered by its prior policy).

8 *See* Better Markets Comment Letter, *Request for Information and Comment on Reserve Bank Payment Account Prototype*, Federal Reserve System Docket No. OP-1877; 90 FR 60096 (December 23, 2025), available at: https://bettermarkets.org/wp-content/uploads/2026/02/Better-Markets-Comment-Letter-FRS-Payment-Account-Prototype.pdf.

market utilities in 2010.[9] The Proposal would break from that sound tradition by effectively extending access to a new category of nonbank institutions through interpretive revisions to the Payment System Risk ("PSR") policy and the Account Access Guidelines rather than through an Act of Congress.

Better Markets believes the proposed introduction of Payment Accounts represents an irresponsible and reckless giveaway to the crypto industry, and the concept should never have been proposed. The Proposals are unnecessary because there is no demonstrated gap in the payment system that would require them. The Board repeatedly cites promoting "innovation" as the core argument without providing any concrete examples of what that entails.

In fact, every legally eligible institution currently has a legal pathway to Federal Reserve payment services, either through a Master Account subject to appropriately rigorous review or through the correspondent banking relationships that have safely intermediated access to Reserve Banks' services for over a century. The only "problem" that the Proposal's Payment Account solves is that crypto and other non-depository payment companies appear to find the existing review process too slow, too demanding, and too likely to end in denial—which is a feature, not a bug, of a credible central bank's payment system. Put simply, the Board's current framework for offering Master Accounts is working as intended.

Ultimately, this Proposal is contrary to sound banking policy because it strays from the Federal Reserve's core mission as a "bank for banks," unbundling payment services from the deposit-taking and lending functions they exist to support, in order to serve institutions that take no deposits, make no loans, and offer no concrete benefit to the real economy. Worse, by enhancing the business models of stablecoin issuers[10] and other crypto firms, the Payment Account would

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9 *See* Federal Reserve Act, ch. 6, § 13, 38 Stat. 251, 263 (1913) (codified as amended at 12 U.S.C. § 342) (authorizing Reserve Banks to receive deposits from member banks); Depository Institutions Deregulation and Monetary Control Act of 1980, Pub. L. No. 96-221, tit. I, § 107, 94 Stat. 132, 140 (codified at 12 U.S.C. § 248a(c)(2)) (making Federal Reserve priced services available to nonmember depository institutions); Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, § 806(a), 124 Stat. 1376, 1811 (2010) (codified at 12 U.S.C. § 5465(a)) (authorizing Reserve Banks to establish accounts and provide services to designated financial market utilities).

10 *See* Better Markets analysis of policy considerations for stablecoins and the GENIUS Act, available at: https://bettermarkets.org/analysis/stablecoins-and-the-genius-act/. *See e.g.,* Christopher Appel. "FDIC's Stablecoin Proposal Would Recklessly Import Crypto's Volatility into the Federal Deposit Insurance Safety Net." (June 9, 2026), available at: https://bettermarkets.org/newsroom/fdics-stablecoin-proposal-would-recklessly-import-cryptos-volatility-into-the-federal-deposit-insurance-safety-net/; https://bettermarkets.org/wp-content/uploads/2026/06/Better-Markets-Comment-Letter-FDIC-GENIUS-Act.pdf. *See also* "Reckless FDIC Stablecoin Proposal Prioritizes Industry Convenience Over Economic Stability for Main Street." (May 18, 2026), available at: https://bettermarkets.org/newsroom/reckless-fdic-stablecoin-proposal-prioritizes-industry-convenience-over-economic-stability-for-main-street/ and https://bettermarkets.org/wp-content/uploads/2026/05/Better-Markets-Comment-Letter-FDIC-Stablecoins.pdf. *See also* Christopher Appel. "OCC GENIUS Act Proposal Fails to Address Stablecoin Risks, Raising the Chance Turmoil Spreads Into the Broader Economy." (May 4, 2026), available at: https://bettermarkets.org/newsroom/occ-genius-act-proposal-fails-to-address-stablecoin-risks-raising-the-

accelerate the migration of deposits out of the banking system (particularly for community banks), reducing lending to households and businesses.[11]

This about-face in the Board's policy approach is remarkable given the position the Board has taken—and prevailed on—in federal court.[12] For nearly four years, through final judgment in the Tenth Circuit and the denial of rehearing en banc, the Board defended its discretionary, searching review of access requests from novel state charters as essential to protecting the financial system, and the court of appeals agreed, refusing to "impair the Fed's ability to safeguard our nation's financial system through the exercise of discretion."

Six months later, the Board is proposing to replace that searching review—for the same population of institutions—with standardized terms, a 90-day review expectation, and decentralized Reserve Bank approval without Board sign-off. An agency is free to change its policy, but it must "display awareness that it is changing position," show that "there are good reasons for the new policy," and account for the serious reliance interests engendered by its prior approach. In this case, those interests include correspondent banks that have intermediated access under the existing framework and the depository institutions that invested in FedNow participation on the premise that direct access carries commensurate obligations.[13] The Proposal does not do this, nor does it acknowledge that it is reversing the position the Board defended in court as recently as this year.

Indeed, the Federal Reserve Bank of Kansas City in just the last few years rejected an application from a state-chartered special purpose depository institution precisely because of the undue risks of introducing crypto-focused businesses into the central bank's payment system. Nothing has changed in the statutes governing account eligibility or in the risks posed by crypto institutions, leading us to believe this change in policy is motivated instead by a political desire to support the crypto industry.

The Proposal represents the latest step in a broader effort to do an end run around the Federal Reserve's core mission and institutional structure for the sole benefit of the crypto industry

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chance-turmoil-spreads-into-the-broader-economy/; https://bettermarkets.org/wp-content/uploads/2026/05/Better-Markets-Comment-Letter-OCC-GENIUS-Act-Stablecoins.pdf.

11 *See* Phillip Basil, *The Banking Agencies' Anti-Community Bank Policies Are Hurting the Main Street Economy*, Better Markets (January 16, 2026), available at: https://bettermarkets.org/wp-content/uploads/2026/01/Anti-Community-Bank-Policies-Fact-Sheet-1-16-2026.pdf.

12 *See Custodia Bank v. Federal Reserve Board of Governors*, No. 24-8024, slip op. (10th Cir. Oct. 31, 2025). ("We conclude the plain language of the relevant statutes grants Federal Reserve Banks discretion to reject master account access requests from eligible entities and, therefore, we reject Custodia's attempt to impair the Fed's ability to safeguard our nation's financial system through the exercise of discretion"), *reh'g en banc denied* (Mar. 13, 2026), *petition for cert. filed* (U.S. July 2026), *aff'g* 728 F. Supp. 3d 1227 (D. Wyo. 2024).

13 *Supra* 7.

and its hype machine. Unfortunately for the United States, that effort has been successful to date and has proceeded as follows:

1. The Office of the Comptroller of the Currency ("OCC") provides national trust charters to crypto companies, and States provide special-purpose charters to crypto companies.[14]

2. The OCC issued a proposal to "clarify" that authorities granted under national trust charters include non-fiduciary activities.[15]

3. The Board issued the Proposal[16] to create a special type of Payment Account that provides access to the Federal Reserve's payments systems for entities that will not have the same rules that apply to actual depository institutions.

4. After the Proposal is finalized, we expect Reserve Banks will liberally grant Payment Accounts to crypto companies masquerading as "special purpose" banks with bespoke state charters and OCC trust charters.

For the reasons outlined in this letter, the Board should withdraw the Proposal. Because the Board appears determined to proceed notwithstanding these fundamental objections, however, the remainder of this letter addresses the modifications that are, at a minimum, essential to contain the risks the Proposal would unleash—risks the Board itself plainly recognizes in the Proposal, given that nearly every provision of the Proposal is devoted to mitigating them.

Summary of the Proposal

The Proposal would add a new Part IV to the Federal Reserve's existing PSR Policy, authorizing Reserve Banks to offer special-purpose Payment Accounts to any legally eligible institution—regardless of tier under the Account Access Guidelines—for the purpose of clearing and settling its own payment activity and that of its customers. The Proposal seeks to establish

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14 *See e.g.,* the OCC's conditional approval of national trust bank charters for several digital asset firms, including Ripple National Trust Bank and First National Digital Currency Bank, as well as conversions for BitGo, Fidelity Digital Assets, and Paxos Trust Company. These charters permit crypto-focused firms to operate as national trust banks under OCC supervision. Office of the Comptroller of the Currency. "OCC Announces Conditional Approvals for Five National Trust Bank Charter Applications." (December 12, 2025), available at: https://www.occ.gov/news-issuances/news-releases/2025/nr-occ-2025-125.html.

15 *See* Office of the Comptroller of the Currency. Proposed Rule. *National Bank Chartering*. RIN 1557-AF47, Docket ID OCC2025-0768; 91 FR 1098 (Jan. 12, 2026), available at: https://www.federalregister.gov/documents/2026/01/12/2026-00372/national-bank-chartering. *See also* Better Markets Comment Letter on the proposal, available at: https://bettermarkets.org/wp-content/uploads/2026/02/Better-Markets-Comment-Letter-OCC-Trust-Charters.pdf. *See also* Phillip Basil, "The OCC is Paving the Way for Crypto Banks and Undermining Real Banks." (February 12, 2026), available at: https://bettermarkets.org/newsroom/occ-is-paving-the-way-for-crypto-banks-and-undermining-real-banks/.

16 *Supra* 2.

these special-purpose Payment Accounts with a uniform set of terms designed to minimize risk exposure through the following:

- A Closing Balance Limit, measured at the close of the Federal Reserve's business day and set by the Reserve Bank based on the institution's expected payment activity, not to exceed $1 billion, with no corresponding limit on intraday balances;

- No access to intraday credit, with any transaction that would overdraw the account automatically rejected;

- Access limited to only those services for which Reserve Banks can automatically reject overdrafts—currently the Fedwire Funds Service ("Fedwire"), FedNow, the National Settlement Service, and the Fedwire Securities Service for transfers free of payment—thereby excluding FedACH and delivery-versus-payment securities settlement;

- A prohibition on acting as a "Correspondent" or "Respondent" under Reserve Bank Operating Circular No. 1;

- A requirement that Payment Account holders be prepared to demonstrate to Reserve Banks, on an *ad hoc* or periodic basis, compliance with Bank Secrecy Act/Anti-Money Laundering ("BSA/AML") and Office of Foreign Assets Control ("OFAC") requirements;

- No interest paid on balances and no participation in an Excess Balance Account, under corresponding revisions to Regulation D; and

- A general expectation that Reserve Banks complete review of a Payment Account request within 90 calendar days of receiving all requested documentation.

The Proposal would also:

- Encourage Reserve Banks to pause pending access decisions for Tier 3 institutions until the Board completes its policy development process on the Payment Account (expected before year-end 2026);

- Establish a general rule limiting an institution to one account at a Reserve Bank, with narrow exceptions such as a temporary, up-to-one-year period following a merger;

- Introduce a general 45-calendar-day review expectation for Master Account requests from Tier 1 institutions, while declining to set a comparable timeline for Master Account requests from Tier 2 or Tier 3 institutions; and

- Clarify that Master Accounts carry no standard set of risk-mitigating terms and remain legally and operationally distinct from the newly created Payment Account.

Additionally, the corresponding proposals to modify Regulation A (Extensions of Credit by Federal Reserve Banks) and Regulation D (Reserve Requirements of Depository Institutions) would:

- Specify that a holder of a Payment Account would not be eligible for discount window credit from the Federal Reserve Banks;
- Specify that balances maintained in Payment Accounts would not receive interest from Reserve Banks; and
- Bar Payment Account holders from participating in an Excess Balance Account.

Comments

I. The Amendments to Regulation A and Regulation D Are Necessary to Protect Financial Stability

Notwithstanding our fundamental objections to the Proposal and assuming it were to be finalized, Better Markets strongly supports limiting Payment Account holders' access to the Federal Reserve's discount window and prohibiting interest on balances held in Payment Accounts. In the event of a final rule on the Proposal, both measures would be essential and necessary safeguards to prevent the framework from introducing new risks to the broader financial system. Nevertheless, as outlined in the financial stability section below, those risks will multiply quickly and likely overwhelm these sensible restrictions over time.

The Reserve Banks' discount window operations are a critical tool for supporting the liquidity and stability of the banking system. By providing depository institutions with ready access to funding, they help them manage liquidity risk efficiently and avoid actions with harmful consequences for their customers, such as withdrawing credit during periods of market stress.[17] Restricting Payment Account holders' access to the discount window helps limit moral hazard: if a nonbank payment company could borrow from a Reserve Bank, it might take on greater risk, believing that central bank funding would be available if private funding dried up.

The proposed prohibitions are also compelled by the absence of any credible resolution framework for likely Payment Account holders. As the Board itself acknowledges in the Proposal, institutions seeking Payment Accounts are unlikely to be subject to the resolution regimes that accompany federal deposit insurance, and the insolvency regimes that would apply to them "may be new or may involve the application of rarely invoked state and federal laws."[18] Central bank credit—whether intraday, at the discount window, or otherwise—has always been extended against the backdrop of a well-established, predictable process for recovering funds from a failed borrower. Extending credit to institutions whose failure would be governed by untested state trust-insolvency law would expose the Reserve Banks, and ultimately the public, to losses the Federal

[17] *See* João A.C. Santos and Stavros Peristiani, *Why do Central Banks Have Discount Windows*, Liberty Street Economics, Federal Reserve Bank of New York (March 30, 2011), available at: https://libertystreeteconomics.newyorkfed.org/2011/03/why-do-central-banks-have-discount-windows/.

[18] *Supra* 2.

Reserve has no reliable means of recovering. The Board's reasoning is correct, and it should be stated as a permanent structural feature of the framework, not a term subject to future revision or case-by-case exception.

Not paying interest on balances of Payment Accounts would be consistent with the public interest. This feature of the Proposals would remove any incentive for account holders to hold large overnight balances to make a return. It also protects financial stability by avoiding incentives that would make uninsured, non-depository accounts an attractive place to hold cash—which could otherwise draw deposits away from the insured depository institutions. That said, a zero-interest condition alone may not be enough to prevent unfair competition. A Payment Account holder with access to Fed payment services comparable to those available to insured depository institutions, including community banks, could still gain an unfair advantage. Those institutions bear compliance costs that these companies do not—notably, deposit insurance premiums, capital and liquidity requirements, comprehensive examination and supervision, Community Reinvestment Act obligations, and the full framework of prudential regulation. Insured depository institutions were required to earn their privileged access to Federal Reserve infrastructure by accepting these obligations. Conversely, the Proposal would hand comparable access to institutions that have accepted none of them. The prohibitions in Regulations A and D mitigate—but do not eliminate—this fundamental asymmetry. If the Board chooses to finalize the Proposal, it must also include the proposed amendments to Regulations A and D at a minimum.

Finally, the Board should make explicit that Payment Account holders can have no expectation of emergency credit through any channel. The discount window prohibition addresses ordinary-course lending, but moral hazard can persist through the expectation of extraordinary support. If Payment Accounts allow crypto and payments firms to grow large and interconnected within the Federal Reserve's own payment infrastructure, pressure will mount in a future crisis to support a failing account holder under Section 13(3) or otherwise, on the theory that its failure would disrupt the payment system. The Board should state clearly in any final rule that provision of a Payment Account creates **no expectation of Federal Reserve credit in any form or circumstance**, so that market participants price these institutions' risk accordingly rather than assuming an implicit backstop.[19]

In response to Question 3a of the Regulation D Proposal,[20] the Board should codify the Closing Balance Limit in Regulation D rather than in its PSR Policy. The Proposal correctly observes that the zero-interest term and the Closing Balance Limit "serve a similar purpose and have important interactions." They are two halves of a single financial stability safeguard and, therefore, should have the same legal durability. A term codified in regulation can be weakened only through notice-and-comment rulemaking, with public participation and a reasoned explanation subject to judicial review. A term housed in a policy statement can be revised far more

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19 *See* Statement of Kevin Warsh, Chairman of the Board of Governors of the Federal Reserve System, to House Financial Services Committee Hearing, Semi-Annual Monetary Policy Report to Congress (July 14, 2026): "We want to be in a position where we are not bailing out anybody, including crypto," available at: https://www.federalreserve.gov/newsevents/testimony/warsh20260714a.htm.

20 *Supra* 3.

easily. Given the intense and well-documented industry pressure[21] that has already produced a doubling of the maximum account balance limit between the RFI and this Proposal, the public and the banking system are entitled to the procedural protections of the Administrative Procedure Act before this safeguard can be loosened by crypto advocates any further.

II. <u>The Payment Account Framework Would Embed Run-Prone Institutions Inside the Federal Reserve's Payment System, Creating Long-Term Financial Stability Risks to the United States</u>

The Proposal's safeguards at the individual account level (e.g., the Closing Balance Limit, the credit prohibitions, and the prefunding requirement) attempt to address the risk that any single Payment Account holder would pose to a Reserve Bank and the Federal Reserve's payments infrastructure. However, the Proposal does not attempt to address or even analyze the dynamic, system-level risk created by embedding a new class of uninsured, run-prone institutions inside the Federal Reserve's payment infrastructure. Once these institutions are connected to Fedwire and FedNow, their failures would no longer be private events occurring at arm's length from the central bank. Instead, they would occur inside the Federal Reserve's rails, and the critical public confidence in those rails—one of the most valuable assets the Federal Reserve System possesses—would be at risk.

First, direct access to Federal Reserve accounts and services confers the Federal Reserve System's implicit imprimatur. As a result of obtaining a Payment Account, nonbank crypto and payment firms will likely market their direct connection to the central bank as an indication of legitimacy and safety. Retail customers cannot be expected to distinguish an uninsured stablecoin issuer settling over FedNow from an insured depository institution. This false aura of legitimacy would attach automatically to any institution the Federal Reserve reviews, approves, and connects to the nation's payment system. When a Payment Account holder fails—and given the failure record of the crypto industry, some inevitably will—the collapse will accurately be reported as the failure of a Federal Reserve-approved institution operating on Federal Reserve rails. Each such episode taints the payment system itself and erodes the trust in settlement finality and operational integrity on which Fedwire and FedNow depend. This concern is a critical reason why Better Markets urges the Board to withdraw the Proposal.

Second, the Board's remedy for misconduct or mismanagement—an escalating compliance program culminating in account closure—will be least credible precisely when it is most needed. Once a Payment Account holder intermediates payroll, retail payments, or a large stablecoin float at scale, terminating its account would cut off potentially millions of end users and would be a disruptive event for elements of the financial system. The predictable result is forbearance, which market participants will price in. The Proposal's history already demonstrates that the pressure on this framework runs in only one direction. For example, between the RFI and the Proposal, the

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21 *Supra* 2, Part II.D.1 ("Summary of Comments"): "Regarding the limit amount… a substantial number of commenters stated that the proposed limit would be too low." *See also* Blockchain Association Comment Letter to Docket No. OP-1877 (February 6, 2026), available at: https://www.federalreserve.gov/apps/proposals/comments/FR-2025-0083-01-C69.

maximum balance limit was doubled and its asset-based component eliminated in response to industry comments, and the Board states that it "might reconsider" the suite of services available to Payment Accounts in the future. Each accommodation will further deepen these institutions' entanglement with the Federal Reserve's infrastructure, and that entanglement will in turn generate pressure for further accommodation—intraday credit to "smooth" payments, FedACH access to serve payroll customers, higher limits to prevent failed payments. Within a decade, the Board could face a cohort of large nonbank payment firms whose operations are inseparable from the Federal Reserve's payment rails, that are not subject to any prudential supervision, have no credible resolution regime, and cannot be disconnected without damaging the payment system the PSR Policy exists to protect. This unfortunate but foreseeable outcome will also devalue the attractiveness of becoming a depository and could cumulatively undermine the purpose of having a robust, publicly supported banking system in the United States. The Board should address these potential effects in any final rule, particularly for membership in the Federal Reserve System and on the future of the state member bank system.

Third, the Proposal contains no aggregate safeguards and does not include a serious impact analysis on systemic risk. The Board's requirements are all microprudential: the Closing Balance Limit applies account by account, and there is no limit on the number of Payment Accounts, no limit on aggregate Payment Account balances, and no intraday limit at all.

The Board's distributional analysis shows that the $1 billion maximum is equal to or greater than approximately 97 percent of all account closing balances at the Reserve Banks over the past five years—meaning each individual Payment Account could close each day with a larger balance than nearly every existing accountholder.[22] Multiplied across dozens of stablecoin issuers and payment firms, the framework permits tens of billions of dollars in overnight balances and unbounded intraday flows to migrate onto the Federal Reserve's balance sheet and payment rails.

A run on a major stablecoin would transmit into Federal Reserve infrastructure in real time, draining reserves from insured depository institutions at precisely the moment of maximum stress. Commenters raised the systemic risk created by interconnectedness among Payment Account holders, and the Board dismissed the concern in a single conclusory sentence— "the Board does not believe the Payment Account would increase systemic risk"[23]—without analysis. A conclusion

[22] *Supra* 2, Part III.A.4 ("Terms to Mitigate Risk to Financial Stability and Monetary Policy Implementation").

[23] *Supra* 2 at 30633. The Board's assertion is contradicted by its own research and other U.S. government sources that estimate stablecoins could become a multi-trillion dollar industry by the end of the decade. *See* Treasury Borrowing Advisory Committee. *Digital money.* (April 30, 2025), available at: https://home.treasury.gov/system/files/221/CombinedChargesforArchivesQ22025.pdf; Federal Reserve Bank of Kansas City. *Stablecoins could increase Treasury demand, but only by reducing demand for other assets*. (August 8, 2025), available at: https://www.kansascityfed.org/research/economic-bulletin/stablecoins-could-increase-treasury-demand-but-only-by-reducing-demand-for-other-assets/; Federal Reserve Board of Governors, FED Notes, *Stablecoins in 2025: Developments and financial stability implications*. (April 8, 2026), available at: https://www.federalreserve.gov/econres/notes/feds-notes/stablecoins-in-2025-developments-and-financial-stability-implications-20260408.html.

is not analysis, and reasoned decision-making requires more.[24]

Finally, the Board should consider what occurred with FTX, and how the Proposal would permit the same kind of tainted money into the nation's payments system—which will have a real cost to the Federal Reserve's reputation with the public. FTX—an offshore exchange operating in the United States through state money-transmitter licenses—was not legally eligible for a Reserve Bank account, but legal ineligibility did not stop it. In March 2022, FTX's affiliate Alameda Research paid $11.5 million for a stake in FBH Corporation—calibrated at just under 10 percent to avoid triggering regulatory review of a change in control—whose main asset was Farmington State Bank in Washington State, a one-branch primarily agricultural lender holding a Federal Reserve Master Account. Alameda paid roughly double the value of the entire holding company, a premium attributed to the bank's access to the Federal Reserve's payment system.[25]

The bank, renamed "Moonstone," then secretly changed its business plan to pursue digital asset and stablecoin activities without the required approvals from the Federal Reserve or its state supervisor. The Federal Reserve's merger approval process failed to detect it. It was only after FTX collapsed—roughly eight months after Alameda's investment—and federal prosecutors seized $50 million in FTX-linked funds from the bank that the Federal Reserve acted—issuing an enforcement action in August 2023, after the bank had already announced its own wind-down.

Under the Proposal, the access FTX acquired through concealment would be available openly, through a streamlined and entirely legal channel. An FTX copycat would obtain or acquire a state trust or special-purpose charter, as crypto exchanges have already done; request a Payment Account; and receive a streamlined 90-day review that leans on state supervisors—the same class of supervisors that detected nothing at FTX—with illicit finance mitigants left to individual Reserve Bank discretion and no Board approval required.

Put another way, had the Proposal's framework existed in 2022, an FTX-affiliated charter could have been clearing payments over Fedwire and FedNow while one of the largest financial frauds in U.S. history was ongoing, and the Federal Reserve's name would have appeared in every account of the collapse. If the Federal Reserve seeks to finalize the Proposal, it must explain how a situation such as the 2022 FTX episode will be prevented. If the Federal Reserve missed the Moonstone-related issues, it is unlikely they would be able to prevent a future, similar event given the likely flood of Payment Account applicants, expedited review period, and increased reliance on state supervisors to safeguard the nation's payment system.[26]

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[24] *Supra* 7.

[25] *See FTX Recovery Trust v. Neil Patel*, No. 24-50216 (KBO), Bankruptcy Court for the District of Delaware (October 27, 2025), available at: https://www.deb.uscourts.gov/sites/deb/files/opinions/Memorandum%20Order%20on%20Motion%20to%20Dismiss_0.pdf.

[26] *See* Better Markets Comment Letter to the Board's proposal to remove reputation risk from its supervisory framework for additional evidence of the Federal Reserve's inadequate oversight of BSA/AML and criminal activity at Federal Reserve-supervised institutions. Available at: https://bettermarkets.org/wp-

Before finalizing the Proposal, the Board should: (1) conduct and publish a system-level analysis (including the assumptions and methodologies) of the aggregate and dynamic effects of Payment Accounts, including concentration and interconnectedness among Payment Account holders; (2) adopt an aggregate limit on total Payment Account balances, with periodic public reporting of the number of accounts and aggregate balances; (3) publish a pre-committed account-termination and wind-down protocol so that the closure sanction is credible from the outset; and (4) commit that any expansion of the services, balance limits, or other terms available to Payment Accounts will occur only through notice-and-comment rulemaking. None of these measures, however, substitutes for the correct course to withdraw the Proposal.

The Board also should explain whether the governance, risk-management, internal-control, and affiliate-transaction failures subsequently identified at FTX would have rendered an otherwise legally eligible applicant ineligible for a Payment Account under the proposed framework. If so, the Board should identify the specific provisions that would have produced that result.

The Board should also identify the specific governance, liquidity, operational-resilience, internal-control, and compliance deficiencies that would result in denial of a Payment Account application. In addition, the Board should explain whether institutions exhibiting deficiencies similar to those at FTX—namely, Binance, Celsius, Voyager, Silvergate Bank, and Signature Bank—would have been eligible for a Payment Account at the time immediately preceding their distress or failure. If so, the Board should explain how the Proposal would have addressed those instances.

III. The Proposal Fails to Analyze Its Own Significant Financial Stability Consequences

Among the federal banking agencies, the Board is uniquely responsible for promoting the stability of the U.S. banking and financial system. Financial stability concerns are central to many of the Board's most important responsibilities, including bank supervision, capital regulation, liquidity regulation, payment system oversight, lender-of-last-resort operations, and monetary policy implementation. After the 2007-2009 global financial crisis demonstrated the Board had not devoted its focus or resources to assessing financial stability risk, the Board created the Division of Financial Stability.[27] Yet the Proposal approaches the creation of a new category of Federal Reserve account as though it were an operational or administrative matter rather than a policy decision with profound consequences for financial stability.

The Proposal would authorize direct access to the Federal Reserve's payment services for a new class of institutions that are generally uninsured, often lightly regulated, and frequently

content/uploads/2026/04/Better-Markets-Comment-Letter-FRS-Prohibition-on-Use-of-Reputation-Risk.pdf.

[27] *See* Federal Reserve Board. "Federal Reserve Board announces Office of Financial Policy and Research has been designated a division of the Board and renamed Division of Financial Stability." (May 11, 2016), available at: https://www.federalreserve.gov/newsevents/pressreleases/other20160511a.htm.

engaged in activities involving cryptocurrency, stablecoins, and other novel financial arrangements. Such institutions are often characterized by significant maturity transformation, operational and depositor concentration, technology dependence, and susceptibility to rapid changes in customer confidence. These characteristics are directly relevant to financial stability analysis. Nevertheless, the Proposal contains no meaningful attempt to measure, quantify, or analyze the broader financial stability implications of granting such institutions direct access to the Federal Reserve's payment infrastructure.

Instead, the Proposal focuses almost exclusively on institution-specific or microprudential safeguards. The Board discusses account-level restrictions, balance limits, operational controls, and limitations on access to Federal Reserve credit. Those measures may reduce certain risks presented by an individual Payment Account holder. However, they do not address the broader question of how the creation of an entirely new category of Federal Reserve account could affect the structure of the financial system over time.

For example, the Proposal does not attempt to analyze whether Payment Accounts would accelerate migration of transaction balances away from insured depository institutions and toward stablecoin issuers, trust companies, fintech firms, or other nonbank entities. Nor does the Proposal analyze the effect such migration could have on bank funding, credit creation, reserve distribution, or monetary policy implementation. Likewise, the Proposal does not examine whether Payment Accounts could increase interconnectedness among novel financial institutions, create new channels for contagion during periods of market stress, or generate future pressure on the Federal Reserve to provide extraordinary support to institutions operating on its payment rails.

These omissions are particularly striking because central banks and financial stability authorities around the world are actively attempting to study precisely these questions. The future interaction among stablecoins, payment systems, bank deposits, reserve balances, and financial stability has become a major area of research and policy development (including at the Board and within the Federal Reserve System). Yet the Proposal effectively assumes away these issues by asserting that Payment Accounts will not materially affect financial stability without presenting a meaningful analytical basis for that conclusion.[28]

The Board's failure to conduct such analysis is especially concerning because the Proposal itself recognizes that Payment Accounts may alter incentives, affect reserve balances, influence payment activity, and create operational and liquidity risks. Having identified those potential effects, the Board cannot simply assume that they are immaterial. Reasoned decision-making requires a meaningful assessment of their magnitude, likelihood, and potential consequences.

[28] *Supra* 23.

The omission is also significant under the Regulatory Flexibility Act ("RFA"). The Proposal's RFA analysis[29] does not meaningfully evaluate these potential competitive, funding, or lending consequences for small entities. Community banks and other small insured depository institutions rely heavily on deposits as a source of funding for lending to households, small businesses, and local communities. If the Proposal encourages migration of deposits and payment activity toward nonbank institutions receiving direct access to the Federal Reserve's payment services, those effects may disproportionately impact smaller institutions.

Accordingly, before finalizing the Proposal, the Board should:

1. Conduct and publish a comprehensive financial stability analysis of the Payment Account framework, including both institution-specific and system-wide effects.
2. Analyze the potential effects of Payment Accounts on deposit migration, bank funding, reserve balances, credit availability, and monetary policy implementation.
3. Evaluate whether Payment Accounts could increase interconnectedness, concentration, contagion risk, or reliance on Federal Reserve support during periods of market stress.
4. Quantitatively assess the effects of Payment Accounts on community banks and other small insured depository institutions and revise its Regulatory Flexibility Act analysis accordingly.
5. Explain the analytical basis for its conclusion that Payment Accounts do not materially increase financial stability risks and identify the data, models, assumptions, and empirical evidence supporting that conclusion.
6. Publish any financial stability analyses, reports, memoranda, or other materials relied upon by the Board in developing the Proposal and provide the public an opportunity to comment on those materials before issuance of any final rule.
7. Explain whether the Board intends to publish precedential decisions, interpretive guidance, or supervisory expectations to promote consistent financial stability assessments across Reserve Banks when evaluating Payment Account applications.

Absent such analysis, the Board has not adequately considered an important aspect of the problem before it. The creation of a new category of Federal Reserve account for non-depository institutions is a consequential policy choice with potentially significant implications for the structure and stability of the U.S. financial system. The Board cannot satisfy its obligation of reasoned decision-making by assuming those implications away.

IV. The Board Should Have a Role in Final Approval of Reserve Bank Decisions on Payment Accounts to the Extent Legally Permissible

[29] *Supra* 2 at 30643. "The Board believes that the proposed changes to the PSR Policy to accommodate the provision of Payment Accounts by Reserve Banks will not have a significant economic impact on a substantial number of small entities."

Section 11(j) of the Federal Reserve Act authorizes the Board to exercise general supervision over the Reserve Banks, including the provision of accounts and services.[30] At the same time, Federal law gives Reserve Banks discretion to decide on requests for access to Federal Reserve accounts and payment services. As a result, this decentralized application and decision process has long lacked transparency and consistency.[31] Reserve Banks are expected to evaluate the same categories of risk, but nothing ensures they apply a common risk tolerance. And while Payment Accounts are more limited in scope than Master Accounts, the Board should still play a role in final determinations to the extent legally permissible.

Even a limited Payment Account would connect an institution directly to the Federal Reserve's payment infrastructure. If that institution fails, facilitates illicit transactions, or creates operational risk, the consequences may not stay contained to the Reserve Bank that approved it. Permitting each of the Reserve Banks to decide independently also risks inconsistent outcomes: a similar applicant could be approved in one Federal Reserve district and denied in another. A single Reserve Bank's decision can effectively set national policy for a new charter or business model, even though no individual Reserve Bank is positioned to weigh nationwide consequences or make policy.[32] Robust Board oversight (to the extent legally permissible) would establish one nationwide standard, ensure the criteria are applied consistently across districts, and provide democratic accountability to this critical process.

Individual Reserve Banks may also have an incentive to attract innovative companies to their district or expand use of payment services. Therefore, Board oversight would serve as an independent check against overly permissive decisions by individual Reserve Banks. Approving access for an uninsured or novel institution can set an important precedent, which is why it warrants centralized review rather than being left to a single Reserve Bank's discretion.

Recent examples of actions by individual Reserve Banks highlight these concerns. In March 2026, the Federal Reserve Bank of Kansas City approved a "skinny" Master Account for Kraken Financial, the Wyoming-chartered banking arm of the cryptocurrency exchange—months before the Board issued its proposal to establish standards for these accounts. The approval was widely criticized[33] as front-running the Board's policy process and illustrates precisely the concerns raised above: whether skinny-account standards are being applied consistently across Reserve Banks, and whether the Board is adequately supervising Reserve Banks' compliance with account-approval standards. If a single district can grant first-of-its-kind access to a novel institution before the Board has finalized the rules meant to govern it, a sound PSR framework would require significant Board involvement on Payment Account decisions.

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[30] *See* 12 U.S.C. 248(j).

[31] *See* Julie Andersen Hill, *Opening A Federal Reserve Account*, University of Alabama School of Law (2023), available at: https://scholarship.law.ua.edu/fac_articles/749/.

[32] *Id.*

[33] Bank Policy Institute, *BPI Statement on Kraken Master Account* (March 4, 2026), available at: https://bpi.com/bpi-statement-on-kraken-master-account/.

V. The Proposal Would Create Unnecessary Regulatory Arbitrage

A core objective of prudential regulation is to ensure that institutions performing similar economic functions are subject to comparable regulatory requirements. However, the Proposal risks undermining that principle by creating a pathway through which certain institutions may obtain direct access to Federal Reserve payment services without becoming subject to the full prudential framework that historically accompanies such access.

The Board repeatedly emphasizes that Payment Accounts would not provide access to the discount window, interest on balances, intraday credit, or other traditional benefits associated with Federal Reserve accounts. However, direct access to Federal Reserve payment infrastructure is itself a significant public benefit. It can reduce operational costs, eliminate reliance on intermediary institutions, improve settlement efficiency, and potentially enhance an institution's market credibility. The Proposal does not adequately analyze whether these benefits could create incentives for firms to structure their activities in ways that maximize access to Federal Reserve services while minimizing exposure to the broader prudential requirements applicable to insured depository institutions.

This concern is particularly acute because the Proposal would operate alongside a rapidly evolving regulatory landscape for stablecoins, payments firms, trust companies, fintechs, and other specialized financial institutions. As the financial sector adapts to these developments, firms will seek the organizational structure that provides the greatest competitive advantage. If direct access to Federal Reserve payment services can be obtained through a less comprehensive regulatory framework than that applicable to traditional banks or credit unions, the Proposal may encourage migration of payment activity toward entities subject to comparatively lighter supervision and regulation.

The Proposal does not contain a meaningful analysis of how the availability of Payment Accounts could affect charter choice, organizational structure, or competitive dynamics across the financial system. Further, it does not evaluate whether payment activity may gradually migrate from entities subject to comprehensive prudential regulation toward entities whose primary attraction is their ability to access Federal Reserve payment services without assuming the full obligations traditionally associated with such access.

Furthermore, the OCC's recent expansion of allowable activities under its trust charters beyond fiduciary activities opens the door to stablecoin issuers recreating the depository institution model without facing anywhere near the same regulations as banks. Theoretically, a stablecoin issuer with a trust charter from the OCC and access to a Federal Reserve Payment Account could take "deposits," and facilitate payments—the two core functions of a depository institution—while facing only the minimal regulations that apply to stablecoin issuers.

That is because a stablecoin issuer with a Payment Account can combine the services provided through its Reserve Bank Payment Account with other actions to recreate all the benefits depository institutions receive from their membership in the Federal Reserve System. Access to a Federal Reserve master account provides services that fall into three major categories: payments, central bank reserves (deposits by the account holder), and liquidity facilities. Under business-as-usual, non-stress conditions, the proposed Payment Accounts would provide stablecoin issuers with the first two services. Also, the proposed prohibition of paying interest on Payment Account balances is inconsequential to stablecoin issuers, most of whose holdings would be in interest-earning assets, such as U.S. Treasury securities.

That leaves the liquidity facilities as the only Federal Reserve service to which stablecoin issuers would not have access. However, as noted above, the Proposal does not prohibit institutions with Payment Accounts from obtaining emergency liquidity through Section 13(3) of the Federal Reserve Act.

Regulatory arbitrage can also create financial stability risks if economically similar activities become concentrated in institutions subject to weaker prudential standards, less robust supervision, or less developed resolution frameworks. The Board should therefore conduct a comprehensive analysis of the Proposal's potential effects on market structure, charter selection, and regulatory incentives before finalizing this framework.

The Board should explain: (1) why the proposed Payment Account regime will not create incentives for institutions to seek Federal Reserve payment access while avoiding the broader prudential obligations that have historically accompanied such access; (2) whether a stablecoin issuer operating through an OCC national trust bank or state-chartered special-purpose institution would generally be eligible for a Payment Account; (3) whether it expects Payment Accounts to facilitate the growth of stablecoin issuance and, if so, quantify the expected effects on bank deposits, reserve balances, and credit availability; and (4) whether it analyzed the effects of large-scale migration of transaction balances from insured depository institutions into stablecoin ecosystems utilizing Payment Accounts.

VI. AML Policies and Procedures Must Be Implemented Before Account Access

Before approved applicants are granted full access to Payment Accounts, robust AML procedures must be in place to mitigate the risk of illicit finance. Given that many prospective Payment Account applicants are novel nonbanks heavily engaged in the cryptocurrency industry, rigorous BSA/AML safeguards are especially warranted. Treasury's own risk assessments and a string of major federal enforcement actions demonstrate that this is a persistent issue in nonbank institutions engaged in the cryptocurrency sector.

The 2024 National Money Laundering Risk Assessment[34] and the companion Illicit Finance Risk Assessment of Decentralized Finance[35] both found that many virtual asset service providers

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[34] *See* U.S. Department of the Treasury, *2024 National Money Laundering Risk Assessment* (February 2024), available at: https://home.treasury.gov/system/files/136/2024-National-Money-Laundering-Risk-Assessment.pdf.

[35] *See* U.S. Department of the Treasury, *Illicit Finance Risk Assessment of Decentralized Finance* (April 2023), available at: https://home.treasury.gov/system/files/136/DeFi-Risk-Full-Review.pdf.

covered by the BSA fail to comply with AML obligations, and that uneven regulation and supervision across the sector invites regulatory arbitrage that illicit actors can readily exploit. In fact, Chinese money-laundering organizations reportedly view crypto as subject to less stringent Know Your Customer requirements than traditional banking, reducing the risk of detection while accelerating the laundering process.[36]

Moreover, the Administration found that North Korea exploited decentralized finance (DeFi) services, including swaps, mixers, and cross-chain bridges, to launder billions of dollars.[37] These findings raise security concerns that are directly relevant to the Proposal. The current GENIUS Act rulemaking by the federal banking agencies does not address DeFi activity within the PPSI framework even though DeFi protocols remain particularly vulnerable to hacks, theft, and illicit finance. Any AML framework governing Payment Accounts should close this gap rather than replicate it.

Federal enforcement actions against cryptocurrency firms for violating anti-money laundering laws bear this out, including incidents such as:

- Binance founder Changpeng Zhao pleaded guilty to violating the BSA by causing Binance to operate without an effective anti-money laundering program.[38]
- OKX agreed to pay more than $500 million after pleading guilty to operating an unlicensed money-transmitting business and failing to implement required AML controls. According to prosecutors, the platform facilitated more than $5 billion in suspicious transactions and criminal proceeds.[39]
- KuCoin pleaded guilty to operating an unlicensed money-transmitting business. For years, the exchange allowed customers to open accounts without providing adequate know-your-customer information, despite having approximately 1.5 million registered U.S. users.

36 *See* Chainalysis, *The 2026 Crypto Crime Report* (March 2026), available at: https://www.chainalysis.com/wp-content/uploads/2026/03/the-2026-crypto-crime-report-3-17-release.pdf.

37 U.S. Department of State, Office of the Spokesperson, *Multilateral Sanctions Monitoring Team Report on DPRK Violations and Evasions of UN Sanctions Through Cyber and Information Technology Worker Activities* (January 2026) available at: https://www.state.gov/releases/office-of-the-spokesperson/2026/01/multilateral-sanctions-monitoring-team-report-on-dprk-violations-and-evasions-of-un-sanctions-through-cyber-and-information-technology-worker-activities.

38 *See* U.S. Department of Justice, Criminal Division, *United States v. Binance Holdings Limited, d/b/a Binance.com*, Case Open Date November 21, 2023, https://www.justice.gov/criminal/case/united-states-v-binance-holdings-limited-dba-binancecom.

39 *See* U.S. Attorney's Office, Southern District of New York, *OKX Pleads Guilty to Violating U.S. Anti-Money Laundering Laws and Agrees to Pay Penalties Totaling More Than $500 Million* (February 24, 2025), available at: https://www.justice.gov/usao-sdny/pr/okx-pleads-guilty-violating-us-anti-money-laundering-laws-and-agrees-pay-penalties.

> Prosecutors said billions of dollars in suspicious and potentially criminal funds flowed through the platform.[40]

Taken together, these examples demonstrate a persistent pattern of BSA/AML deficiencies among nonbank crypto firms, which are precisely the institutions that would apply for a Payment Account.

The Proposal is particularly concerning because the Board appears to be reducing the stringency of its BSA/AML supervision. On July 7, 2026, the Board proposed revisions to its AML program requirements that would shift supervisory and enforcement attention toward "significant failures" in program implementation rather than broader compliance deficiencies.[41] The proposal also emphasizes a risk-based allocation of compliance resources and would align the Board's framework with broader AML/CFT reforms under consideration by other agencies. While Better Markets broadly supports efficient and risk-focused supervision, the timing of these initiatives raises serious concerns given the crypto industry's longstanding BSA/AML issues.

The Board is simultaneously proposing to grant direct access to Federal Reserve payment infrastructure to a new class of institutions heavily concentrated in cryptocurrency, stablecoin, and other digital-asset activities while also signaling a less prescriptive approach to AML supervision. The cryptocurrency sector has generated a lengthy record of major BSA/AML failures, sanctions violations, illicit-finance concerns, and criminal enforcement actions.

Against that backdrop, the Board should explain why it believes now is the appropriate time both to expand access to Federal Reserve payment services and to recalibrate its AML supervisory framework. The Board should analyze whether these initiatives, when considered together, increase the risk that illicit finance, sanctions evasion, fraud proceeds, ransomware payments, or other suspicious transactions could gain more direct access to the Federal Reserve's payment infrastructure.

The Board should also:

1. Explain how the July 2026 BSA/AML proposal would interact with the Payment Account proposal;
2. Analyze whether Payment Account holders should be subject to heightened AML expectations given their direct access to Federal Reserve payment services;
3. Identify the specific BSA/AML deficiencies that would result in denial, suspension, or termination of a Payment Account;

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40 *See* U.S. Attorney's Office, Southern District of New York, *KuCoin Pleads Guilty to Unlicensed Money Transmission Charge and Agrees to Pay Penalties Totaling Nearly $300 Million* (January 27, 2025), available at: https://www.justice.gov/usao-sdny/pr/kucoin-pleads-guilty-unlicensed-money-transmission-charge-and-agrees-pay-penalties.

41 *See* Federal Reserve Board. "Federal Reserve Board requests comment on a proposal to amend its requirements for banks to maintain anti-money laundering programs." (July 7, 2026), available at: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20260707a.htm.

4. Explain whether a significant AML enforcement action, consent order, suspicious activity reporting failure, sanctions violation, or ransomware-related incident would trigger mandatory review of a Payment Account holder's continued eligibility; and
5. Explain how Reserve Banks would coordinate with FinCEN, OFAC, the Department of Justice, and state supervisors when determining whether a Payment Account should be restricted or terminated due to illicit-finance concerns.

VII. The Proposal Does Not Adequately Address Cybersecurity, Ransomware, and Emergency Account Restrictions

The Proposal does not adequately address how Reserve Banks would respond if a Payment Account holder experiences a significant cybersecurity incident, ransomware attack, operational compromise, or unauthorized access event.

This omission is particularly important because the Board anticipates that many Payment Account holders will be novel nonbank entities that are not federally insured and are not subject to the same prudential supervision, examination, and operational resilience requirements applicable to traditional banks.

A successful ransomware attack or cybersecurity breach at a Payment Account holder could create immediate risks to the Federal Reserve's payment infrastructure, other participants in the payment system, and the broader financial system. An attacker that gains control of a participant's payment credentials could potentially attempt to initiate unauthorized payment activity, move funds rapidly through payment rails, or exploit operational weaknesses during a period of disruption.[42]

The Board should explain: (1) the standards a Reserve Bank would apply in determining whether a Payment Account holder has experienced a cybersecurity incident sufficiently severe to justify restricting, suspending, or terminating access to payment services; (2) whether decisions to restrict or suspend a Payment Account following a cybersecurity incident would be made by the relevant Reserve Bank, the Board, or both (if Reserve Banks will exercise discretion, the Board should explain how it will ensure consistent treatment across Federal Reserve districts); (3) specific circumstances that would trigger temporary account restrictions, including ransomware attacks, credential compromise, unauthorized payment instructions, insider fraud, operational outages, sanctions violations, or material deficiencies in cybersecurity controls; (4) whether an account holder would receive notice and an opportunity to respond before restrictions are imposed, and under what circumstances immediate action could occur without prior notice; (5) what criteria would govern restoration of account access following a cybersecurity event and whether an independent validation of remediation efforts would be required; and (6) whether material restrictions imposed on Payment Account holders would be publicly disclosed and how the Board

42 *See, e.g.,* CNBC. "China's ICBC, the world's biggest bank, hit by cyberattack that reportedly disrupted Treasury markets." (November 10, 2023), available at: https://www.cnbc.com/2023/11/10/icbc-the-worlds-biggest-bank-hit-by-ransomware-cyberattack.html.

would balance transparency against financial stability concerns. Stipulating this framework at the outset, before Payment Accounts are granted, can also guard against future accusations of politicized "debanking" if an account holder is restricted or has an account terminated.

VIII. The Federal Reserve Should Require Robust and Enforceable Standards for Boards of Directors of Institutions with Payment Accounts

Institutions applying for a Payment Account should be required to meet explicit board standards consistent with the Board's existing 2022 Account Access Guidelines, which already identify "sound governance arrangements" and "well-qualified personnel" as part of the risk-management principle every applicant must satisfy.

The Proposal currently only states that an institution "has an effective risk management framework and governance arrangements" and that the framework "should be subject to oversight by a board of directors" and "it should clearly identify all risks that may arise related to the institution's business."[43] These vague standards would be challenging to supervise and coincide with a retrenchment in the Board's historical focus on sound management practices as a key component of effective governance.

A higher standard for Payment Accounts should be upheld and enforced consistently by the Reserve Banks rather than left to a case-by-case basis. Because Payment Accounts are limited to clearing and settling payments, applicants' boards should be required to include personnel with demonstrated experience in BSA/AML compliance, liquidity management, cybersecurity risk management[44], and payments-system risk.

Case studies of prominent crypto-firm failures—most notably FTX—found boards with no independent directors, irregular or nonexistent board meetings, and decision-making concentrated among founders and insiders.[45] A defined and rigorous set of enforceable board standards would require applicants to demonstrate—rather than simply assume—the kind of independent, qualified oversight that justifies access to the Federal Reserve's payment system.

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[43] *Supra* 2 at 30649. Section VIII "Account Access Guidelines".

[44] Cybersecurity risk management is of significant importance amid the rapid development of artificial intelligence and a recent incident in which an agent escaped a testing environment and exploited third-party vulnerabilities in operating systems to gain unauthorized access. *See* Ashley Capoot, *OpenAI cyber models broke out of training environment to hack Hugging Face,* CNBC (July 22, 2026), https://www.cnbc.com/2026/07/22/open-ai-cyber-models-hack-hugging-face.html. *See also* Saeed Azhard, *Bessent, Powell warned bank CEOs about Anthropic model risks, sources say*, Reuters (April 9, 2026), https://www.reuters.com/business/finance/bessent-powell-warn-bank-ceos-about-anthropic-model-risks-bloomberg-news-reports-2026-04-10/.

[45] *See* Cindy Moehring, *Culture, Controls, and Corporate Governance: Lessons from the FTX Fiasco*, University of Arkansas (December 19, 2023), available at: https://walton.uark.edu/insights/posts/culture-controls-and-corporate-governance-lessons-from-the-ftx-fiasco.php.

Explicit board standards would also give Reserve Banks an ongoing supervisory tool over novel nonbank institutions with direct access to the Federal Reserve's payment infrastructure. This matters for accountability as a defined, qualified board would provide regulators a clear point of responsibility when compliance failures or operational disruptions occur. That accountability matters because a Payment Account ties a novel institution's operational stability directly to FedNow and Fedwire.

IX. The Board Must Explain the Relationship Between the Proposals and the Administration's Executive Orders and Reaffirm That Only Congress Can Expand Account Eligibility

On May 19, 2026, the President signed an Executive Order ("May 19 Executive Order") titled "Integrating Financial Technology Innovation into Regulatory Frameworks."[46] Section 4 of the May 19 Executive Order requests that the Board conduct a "comprehensive evaluation" of the legal, regulatory, and policy framework governing access to Reserve Bank Payment Accounts and services by "covered firms"—a category the Executive Order defines to include nonbank financial companies engaged in digital assets and other novel financial activities. Section 4(b) requests that the Board report to the President within 120 days on, among other things, its legal authority to extend direct access to covered firms and the legislative or regulatory options that would enable such access. Section 4(c) requests that, to the extent existing law permits, the Board establish transparent application procedures with decisions on complete applications within 90 days. The day after the May 19 Executive Order was issued by the President, the Board issued the Proposal—complete with a 90-day review timeline for Payment Account requests that mirrors Section 4(c).

Notwithstanding that sequencing, the Proposals are completely silent on the Executive Order, and on a preceding executive order by the current Administration on this subject. In fact, the Proposals do not cite, acknowledge, or engage with any executive order, and the RFI likewise cited none. The silence is conspicuous because the Proposals do not exist in a policy or political vacuum.

Since January 2025, the Administration has issued a coordinated series of Executive Orders whose declared objective is to open banking—and now central banking services—infrastructure to the crypto industry. Executive Order 14178 established as the policy of the United States "fair and open access to banking services" for digital-asset firms.[47] The Proposal operationalizes that policy. Executive Order 14331 directed the banking agencies, including the Board, to strip "reputation risk" from supervisory guidance and examination materials and to combat "politicized or unlawful debanking," with digital assets expressly identified as a disfavored industry to be

46 *See* Executive Order 14405, *Integrating Financial Technology Innovation into Regulatory Frameworks*, 91 FR 30475 (May 22, 2026), available at: https://www.federalregister.gov/documents/2026/05/22/2026-10399/integrating-financial-technology-innovation-into-regulatory-frameworks.

47 *See* Executive Order 14178, *Strengthening American Leadership in Digital Financial Technology*, 90 FR 8647 (January 31, 2025), available at: https://www.federalregister.gov/documents/2025/01/31/2025-02123/strengthening-american-leadership-in-digital-financial-technology.

protected.[48] That Executive Order is important because it provides the basis under which any Reserve Bank denial of a Payment Account request will now be attacked as "debanking," ensuring that the pressure on the Account Access Guidelines review process runs only toward approval. It also weakened the supervisory toolkit precisely where Payment Account review is most critical: the qualitative, judgment-based assessment of institutions whose principal risks to the Federal Reserve are reputational and systemic rather than mechanically quantifiable. It further creates pressure for the Board not to restrict, suspend, or terminate access to payment services in the event of a major cyber breach or other crisis situation for fear of running afoul of White House policy objectives or being accused of politicizing access to the payment system.

The Board's record in responding to these executive orders is haphazard, inconsistent, and (most importantly) completely unexplained. The Board removed reputational risk considerations from its supervisory materials in June 2025, anticipating by two months the policy the Administration later codified in Executive Order 14331—a timing alignment so close that the sequence of direction and compliance is indistinguishable.[49] By contrast, the Board has taken no public action in response to Executive Order 14406,[50] Restoring Integrity to America's Financial System, which seeks to discourage financial institutions from extending credit to certain individuals based on immigration status. More broadly, the Board has never publicly explained its posture toward Executive Order 14215, which purports to require independent agencies—expressly including the Board's supervision and regulation functions, while exempting only its "conduct of monetary policy"—to submit significant regulatory actions to the Office of Management and Budget for pre-clearance.[51]

The Board should disclose whether these proposals were submitted to the Office of Management and Budget ("OMB") for review under EO 14215 and, if not, the basis on which the Board claimed exemption. If the answer is the monetary policy carve-out, the Board should explain how a discount-window eligibility rule under Regulation A qualifies. Regardless, the public and commenters are entitled to understand the Board's reasoning because a Board that complies with

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48 *See* Executive Order 14331, *Guaranteeing Fair Banking for All Americans*, 90 FR 38925 (August 12, 2025), available at: https://www.federalregister.gov/documents/2025/08/12/2025-15341/guaranteeing-fair-banking-for-all-americans.

49 *See* Board of Governors of the Federal Reserve System, *Federal Reserve Board Announces That Reputational Risk Will No Longer Be a Component of Examination Programs in Its Supervision of Banks* (June 23, 2025), available at: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250623a.htm.

50 *See* Executive Order 14406, *Restoring Integrity to America's Financial System*, 91 FR 30479 (May 22, 2026), available at: https://www.federalregister.gov/documents/2026/05/22/2026-10400/restoring-integrity-to-americas-financial-system.

51 *See* Executive Order 14215, *Ensuring Accountability for All Agencies*, 90 FR 10447 (February 24, 2025), available at: https://www.federalregister.gov/documents/2025/02/24/2025-03063/ensuring-accountability-for-all-agencies.

executive directives it welcomes, ignores those it does not, and explains neither, has made its independence appear contingent, rather than principled.[52]

Notably, even the current Administration drafted the May 19 Executive Order around the Board's independence. It states that the Board is not designated a "Federal financial regulator" subject to the Executive Order's Section 3 mandates, and Section 4 "requests" rather than directs. The Executive itself thus acknowledged that it cannot command the Board. That telling distinction makes the appearance of the Board's responsiveness to the May 19 Executive Order—a proposal issued the following day, carrying a review timeline that matches the Executive Order's Section 4(c) request—a choice that must be explained by the Board.

Reasoned decision-making requires the Board to state on the record whether the Proposal is intended, in whole or in part, to implement Section 4(c) of the Executive Order; whether the Board will produce the report requested by Section 4(b); and how, if at all, that report will inform the final rule. The report would be due to the President in approximately mid-September 2026—before any final rule in this proceeding could plausibly issue. If the final rule is informed by the Section 4(b) report or any other Executive Branch communication, the Board must disclose that analysis and reopen the comment period so the public can respond to the actual basis for the Board's decision. An agency may not conduct its reasoning through a channel the public cannot see.

The Proposal does not resolve which stablecoin issuers would qualify. It makes Payment Accounts available only to "legally eligible" institutions, but legal eligibility is based on an institution's charter, not its status under the GENIUS Act.[53] A state-qualified issuer chartered as an uninsured special-purpose depository institution is legally eligible (e.g., Custodia)—while the eligibility of an uninsured national trust bank that does not take deposits remains an open and contested legal question that the Proposal chose to not address. By remaining silent on that question while establishing standardized infrastructure that individual Reserve Banks would administer without Board approval, the Proposal would ensure the perimeter of eligibility will be defined application-by-application, outside of notice and comment.

Most importantly, the Board must not allow the executive orders issued by any administration to accomplish through the Payment Account what only Congress can authorize. A concerning feature of the May 19 Executive Order is Section 4(b)'s contemplation of direct access for "non-bank financial companies" that are not currently legally eligible for Reserve Bank

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52 *See* Executive Order 14036, *Promoting Competition in the American Economy*, 86 FR 36987 (July 14, 2021). The Order encouraged the federal banking agencies to review and revise their bank merger review practices. Although the Department of Justice, FDIC, and OCC subsequently undertook merger-policy initiatives, the Board did not propose comprehensive revisions to its Bank Holding Company Act or Bank Merger Act approval framework in response to the Executive Order.

53 Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act), Public Law 119–27, 139 Stat. 419 (2025) (codified at 12 U.S.C. 5901–5916).

accounts. In the Proposal, the Board correctly states that "[f]ederal law—as enacted by Congress—dictates the entities that are eligible to maintain an account at a Reserve Bank."[54]

The Board should maintain that approach in any final rule by expressly reaffirming that: (1) legal eligibility for any Reserve Bank account, including a Payment Account, can be expanded only by Congress; and (2) the Board will not extend Payment Account access to nonbank financial companies through interpretive expansion—including through any reading of the GENIUS Act's[55] reserve-holding provisions as conferring account eligibility. The Payment Account infrastructure this Proposal would create—standardized terms, a 90-day clock, decentralized Reserve Bank approval, and no formal Board sign-off—is precisely the infrastructure onto which an Executive-driven expansion of eligibility would later attach to. Finalizing that infrastructure while a presidential directive to evaluate nonbank access is pending—without addressing the directive at all—invites the inference that the Proposal is the first step in an eligibility expansion the Board has not acknowledged, and the public has not been permitted to comment on.

With respect to Executive Orders and its own view of its authority in this domain, the Board should: (1) state on the record the relationship between the Proposals and the May 19 Executive Order and the Administration's related executive orders; (2) disclose whether the Regulation A and Regulation D proposals were submitted to OMB under Executive Order 14215 and, if not, the basis for exemption; (3) publish the analysis contained in any Section 4(b) report and reopen the comment period if the final rule relies upon it; (4) articulate the general framework the Board applies in determining whether to act on executive orders notwithstanding its independent statutory authority (including its decision to not follow the bank merger Executive Order from the previous administration); (5) expressly reaffirm in the final rule that expansion of account eligibility requires an Act of Congress; and (6) state expressly in any final rule whether an uninsured national trust company that does not accept deposits is a "depository institution" within the meaning of section 19(b) of the Federal Reserve Act and thus legally eligible for any Reserve Bank account.

Conclusion

The Board should withdraw the Proposal and, with it, the corresponding Regulation A and Regulation D proposals, which have no purpose absent the Payment Account framework, because no gap in the Federal Reserve's payment system can justify them. Every legally eligible institution already has a path to Federal Reserve services through a Master Account or correspondent banking. The fact that crypto firms complain the review process's standards are too high is evidence that the current process is working as intended.

The creation of the Payment Account framework would confer the Federal Reserve's implicit imprimatur on uninsured, run-prone institutions and embed them in the nation's payment infrastructure, where their failures will become the Federal Reserve's failures. If the Board proceeds nonetheless, it cannot claim in the future that commenters like Better Markets have not

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54 *Supra* 2 Part II.A.2 ("Board Response") at 30629.

55 *Supra* 53.

foretold the likely negative consequences for the country's payment system and the Federal Reserve's credibility in maintaining it.

Under the current Board, the framework's safeguards will likely erode in only one direction over time—for example, the proposed balance limit has already doubled—while the entanglement of these firms with Fedwire and FedNow will make the ultimate sanction of account closure progressively less credible. Deposits will migrate out of the banking system (particularly from community banks that drive America's Main Street economy), reducing lending to the households and businesses the banking system exists to serve. Further, the account infrastructure built from the Proposal will act as the vehicle for future Executive branch-driven expansion of eligibility to nonbanks that Congress has never authorized the Federal Reserve to permit.

If the Board continues on its wayward path, at a minimum, it must finalize the Regulation A and Regulation D amendments as inseverable from any Payment Account framework; codify the Closing Balance Limit in Regulation D; require the Board's final approval of Payment Account decisions to the extent legally permissible; and commit that any loosening of the framework's terms will occur only through notice-and-comment rulemaking.

The Federal Reserve's payment system is a public trust built over a century. It should not be leased out as proposed to an industry whose defining products are volatility and rapid run failures.

We appreciate the opportunity to comment on the Proposals and would welcome the chance to discuss these issues further.

Sincerely,

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Appendix: *Responses to Specific Questions in the Proposals*

Proposal to Amend Regulation D

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?*

The Board has identified several important effects but has not analyzed them. The preamble acknowledges that the indirect effects of Payment Accounts on Federal Reserve liabilities are "difficult to assess" and would depend on the characteristics of Payment Account holders, the source of funds flowing into Payment Accounts, and "the amount of sweeping activity of Payment Account holders from commercial bank deposits to support higher intraday balances in Payment Accounts."[56] However, identifying an important aspect of a problem without assessing it does not satisfy the requirements of reasoned decision-making.

Before finalizing the proposal, the Board should analyze and publish its assessment of the following effects. First, because the Closing Balance Limit applies only at the Federal Reserve's close of business, Payment Account holders could sweep substantial balances from commercial bank deposits into Payment Accounts each morning and out each evening. At scale, this daily reallocation of reserves would affect intraday reserve distribution, money market conditions, and the estimation of reserve demand under the Board's ample-reserves operating framework. Second, during periods of market stress, flows into Payment Accounts would drain reserves from depository institutions at precisely the moment the Federal Reserve seeks to stabilize funding markets, potentially requiring offsetting balance sheet expansion. Third, the Board should assess the effects of deposit substitution on credit provision. Research from the Federal Reserve Bank of Kansas City includes estimates that the stablecoin market would grow to $900 billion, which could reduce bank assets and lending by approximately $325 billion.[57] Fourth, the Board should evaluate the effect of Payment Accounts on the Federal Reserve System's funding structure, including the extent to which facilitating stablecoin operations would accelerate the displacement of non-interest-bearing physical currency and erode remittances to the Treasury—a concern raised by a commenter on the Request for Information that the Board summarizes but does not address.

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?*

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56 *Supra* 3 ("Regulation D").

57 *Supra* 23. *See also* Phillip Basil, Christopher Appel, and Amanda Fischer*, Policymakers Shouldn't Yield on Stablecoin Interest,* (April 16, 2026), available at: https://bettermarkets.substack.com/p/policymakers-shouldnt-yield-on-stablecoin.

The preamble states that during periods of market stress, Payment Account holders may prefer to hold higher precautionary balances regardless of the interest rate paid. That implies that zero interest is therefore only a partial safeguard. In effect, it works when the risk is lowest and not when the risk is highest. As mentioned above, it also does not bind intraday, when there is no balance limit of any kind. The zero-interest term is necessary but insufficient—which is precisely why the Closing Balance Limit must be codified alongside it (Question 3a) and why the limit's integrity is critical.

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

    a. *Given that paying zero interest and limiting closing balances on Payment Accounts 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?*

Yes. Consistent with the points above in Section I., the two components of the same guardrail should carry the same legal status. However, as proposed, only one component—the interest prohibition—would reside in a regulation that can be amended only through notice-and-comment rulemaking subject to judicial review, while the other—the Closing Balance Limit—would reside in the PSR Policy that the Board may revise without comparable procedural protections.

There is significant risk that the Closing Balance Limit could be weakened through less formal processes. For example, between the December 2025 RFI and the proposal, the maximum limit was raised from the lesser of $500 million or 10 percent of the institution's total assets to $1 billion with no asset-based component. That constitutes a substantial loosening, adopted in response to certain commenters to the RFI seeking a higher limit. Codification should therefore encompass the full architecture of the limit: the requirement that each institution's individual limit be based on expected payment activity; the $1 billion maximum; the requirement of at least annual review; and the constraints governing Temporary Closing Amounts, which should require affirmative Board approval rather than consultation before any exceedance is permitted. The Board's authority under section 19(b)(12)(B) of the Federal Reserve Act to prescribe regulations concerning the payment of interest on balances, and its general supervisory authority over the Reserve Banks under section 11(j), support codification via regulation.

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

Because the zero-interest restriction does not constrain balance accumulation during periods of market stress—as the Board acknowledges in the preamble—the Closing Balance Limit becomes the sole operative safeguard in those periods. However, those are also the periods in which requests for Temporary Closing Amounts are most likely to be made and granted. The framework's only functioning stress-period safeguard is discretionary when it most matters, which counsels both in favor of codification (as noted above) and in favor of requiring Board approval for any stress-period exceedance.

Further, neither term operates during the business day. The Closing Balance Limit only applies at the close of business, and the zero-interest term imposes no meaningful cost on intraday holdings. The two terms therefore jointly leave intraday balances—which the Board identifies as a channel for sweeping activity from commercial bank deposits—unconstrained. The Board should assess in any final rule whether an intraday complement to the two terms is warranted. If the Board chooses to not apply an intraday component, it should explain why not.

In addition, the terms create opposing behavioral incentives and pressures whose combined effect the Board has not analyzed. Specifically, in benign conditions, the zero interest restriction incentivizes balances toward levels that may be insufficient to support settlement, while in stressed conditions, precautionary demand presses balances toward the Closing Balance Limit. An account that oscillates between underfunding, with its resulting operational and failed-payment risks, and the ceiling, with its attendant financial stability implications, raises questions about the coherence of the Payment Account's proposed structural design that the Board should address before finalizing these proposals.

Proposal to Amend Regulation A

1. *Has the Board appropriately identified and considered the potential risks and benefits of permitting or not permitting Payment Account holders to access discount window credit? Are there other potential risks and benefits the Board should consider?*

Better Markets agrees that the Board's three rationales—risk to the Reserve Banks (and the public), risk to the financial sector and economy, and consistent, transparent treatment across holders with varying risk profiles—are sound and well-supported.

Additional considerations the Board should address, all of which reinforce the prohibition: (1) discount window eligibility signals implied federal backing, creating moral hazard for uninsured, lightly supervised entities—including GENIUS Act stablecoin issuers—and encouraging migration of money-like liabilities outside the insured perimeter; (2) the prohibition is what makes the Payment Account's own prefunded, no-credit design internally coherent—access would reintroduce the exact exposure every other term eliminates; (3) untested insolvency regimes and stablecoin-holder priority claims could subordinate or complicate a Reserve Bank's secured recovery; (4) access would confer an unearned funding subsidy on entities that pay none of the safety net's costs, disadvantaging full-service insured institutions; and (5) codification by regulation insulates the Reserve Banks from case-by-case pressure to lend in a crisis.

2. *Should the Board instead retain the existing eligibility requirements for the discount window set forth in Regulation A? If so, why?*

No. Some Payment Account holders would qualify as "depository institutions" and thus remain facially eligible, leaving the prohibition to rest entirely on account agreements and policy documents. Those are opaque, can be amended or waived without notice-and-comment, and can be applied inconsistently across Reserve Banks. Therefore, codification is transparent, uniform, and durable, and ensures any future relaxation gets public process. It is the only approach consistent with the Board's own stated objective of consistent and transparent treatment.

3. *Should the Board instead consider a narrow restriction on eligibility for discount window access (e.g., applicable to only certain types of Payment Account holders) or permit access in limited circumstances (e.g., periods of significant market stress)? If so, why? How should the Board define these restrictions or limitations?*

No to both. A type-based carve-out would recreate the inconsistency and opacity the rule solves and invite charter arbitrage. Stress-contingent access would be the most dangerous approach because a backstop's value is realized precisely in stress; a crisis-only promise is economically equivalent to standing access and would be priced in from day one—while guaranteeing the worst lending conditions (troubled counterparties, no supervisory relationship, untested collateral and insolvency regimes). A "significant stablecoin redemption" is a run, and backstopping runs on uninsured private money would subsidize the fragility prudential policy should discourage.

Section 13(3) of the Federal Reserve Act remains available for systemic circumstances under the constraints imposed by Congress. Institutions that require assured stress liquidity have an option: becoming full-service depository institutions subject to comprehensive prudential requirements.