FASTER PAYMENTS AT LESS COST AND LOWER RISK:

The Case for Allowing Nonbank Payment Processors Direct Access to Federal Reserve Payment Systems

James Sivon, B.J. Sanford, and Greg Wilson*

July 2025

* James Sivon and B.J. Sanford are members of the Washington, DC based law firm, Sivon, Natter & Wechsler, P.C., which specializes in financial services law and policy. Greg Wilson is a former partner with McKinsey & Company and former official with the U.S. Treasury Department. Funding for this paper was provided by Intuit.

EXECUTIVE SUMMARY

Consumers and small businesses depend on Federal Reserve payment systems to send and receive funds. They benefit when payments are fast, secure, and inexpensive. However, funds transferred through Federal Reserve payment systems are slower, less secure, and more costly than they need to be because of outdated policies barring all nonbank direct access to these systems. This paper makes the policy case for allowing nonbank payment processors direct access to Federal Reserve payment systems to reduce costs, risks, and delays for consumers and businesses that rely on these processors.

In today's digital economy, payments by consumers and small businesses often flow through nonbank payment processors. Yet, direct access to Federal Reserve payment systems is limited by federal law to depository institutions (banks, thrifts, and credit unions) and large clearance and settlement firms. Nonbank payment processors that help small businesses and consumers send and receive money must rely upon one or more intermediary depository institutions to access Federal Reserve payment systems. These extra "links" in the payments chain add costs, risks, and delays in the settlement of payments. Extending direct access to Federal Reserve payment systems to nonbank payment processors would make payments safer, faster, and less expensive by reducing the extra links in the payment chain and promoting competition and innovation.

It is possible to expand direct access to Federal Reserve payment systems without creating undue risk to the nation's financial system or giving nonbank payment processors an unfair competitive advantage over existing participants in those payment systems. Such an outcome is not theoretical; it has been achieved in other developed countries. The United Kingdom, the European Union, and Canada have opened access to central bank payment systems for payment processors under legal, regulatory, and operational frameworks that maintain the integrity of their payment systems.

Congress can achieve a similar outcome by amending the Federal Reserve Act to permit a nonbank payment processor to apply for direct access to Federal Reserve payment systems and be granted such access if the payment processor meets certain conditions and limitations. Appendix A is the text of such an amendment.

Under that amendment, a nonbank payment processor would qualify for direct access to Federal Reserve payment systems if it: (1) meets certain reporting, prudential, and supervision standards set by state regulators for money transmitters; and (2) meets additional risk management standards set by the Board of Governors of the Federal Reserve System ("Federal Reserve Board"). Such a payment processor would become subject to examinations and enforcement by a Federal Reserve Bank ("Reserve Bank"), in addition to its supervision by state money transmitter regulators. The payment processor's

account would be subject to limitations designed to address financial stability and monetary policy concerns. These restrictions would ensure the payment processor uses the account only to settle payments, and not for earning interest or holding customer funds or stablecoin reserves.

By layering federal risk management standards and supervision over the current state licensing and supervisory regime applicable to money transmitters, the proposed amendment would achieve the public benefits of faster payments and lower costs without jeopardizing the integrity of the current payments system or giving payment processors any unfair comparative advantage over current participants in the system.

TABLE OF CONTENTS

EXECUTIVE SUMMARY 2

INTRODUCTION 6

SECTION I – THE MODERN PAYMENTS LANDSCAPE AND THE FEDERAL RESERVE'S ROLE 8

Electronic Payments Today 8

How Electronic Payments Work 8

Federal Reserve-Operated Payment Systems 9

Risk, Cost, and Extra Links in Today's Payment Chains 11

Risk and Cost in Every Link in the Chain 11

The Federal Reserve's Reliance on Access Restrictions 12

Expanding Federal Reserve Access 13

Summary 15

SECTION II – FASTER PAYMENTS AT LESS COST AND LOWER RISKS: THE BENEFITS OF GRANTING PAYMENT PROCESSORS DIRECT ACCESS TO FEDERAL RESERVE PAYMENT SYSTEMS 16

Lower Costs Through Competition 16

Faster and More Secure Payments 18

Greater Convenience with Wider, More Inclusive Access 18

Less Risk Through Better Federal Regulation and Supervision with Greater Transparency 19

Maintaining U.S. Financial Leadership Globally 20

Summary 22

SECTION III – ADDRESSING OBJECTIONS TO DIRECT ACCESS THROUGH STATE PRUDENTIAL STANDARDS AND FEDERAL RISK MANAGEMENT STANDARDS 22

Policy Objections to Expanding Access to Federal Reserve Payment Systems 22

Unfair Competition 23

Risks to Financial Stability and Monetary Policy 23

Risk Management 24

Consumer Compliance 24

Legal Authority 25

Addressing the Policy Objections to Expanded Access to Federal Reserve Payment Systems 25

State Regulation and Supervision 25

The Federal Reserve Board's Risk Management Standards 27

Additional Conditions and Limitations 29

Failure Resolution 29

Summary 29
SECTION IV – A COMPARATIVE ANALYSIS OF NONBANK ACCESS TO CENTRAL BANK PAYMENT SYSTEMS IN OTHER COUNTRIES 30
Framework Overview and Implementation 30
Risk Mitigation 32
Restricting Access 32
Reducing Exposure 34
Policing Participants 35
Benefits 37
United Kingdom 37
European Union 39
Canada 39
Summary 40
SECTION V – PATHWAYS FOR PAYMENT PROCESSORS TO GAIN ACCESS TO FEDERAL RESERVE PAYMENT SYSTEMS 40
Gaining Direct Access to Federal Reserve Payment Systems Under Existing Law 40
Commercial Bank or Thrift 40
National Trust Bank 41
Uninsured, Special Purpose State Banks 42
Industrial Banks 43
Summary 44
Direct Access to Federal Reserve Payment Systems Based Upon Changes in Federal Law 44
Federal Payment Charter 44
Direct Access to Federal Reserve Payment Systems for Payment Processors 46
Summary 48
SECTION VI – CONCLUSION 49

INTRODUCTION

This paper presents the policy case for granting direct access to Federal Reserve payment systems to nonbank payment processors. It makes this case in six sections, as follows:

Section I, The Modern Payments Landscape and Federal Reserve's Role, provides a foundation for discussing direct access for payment processors by: (1) explaining electronic payments and the payment systems operated by the Federal Reserve Banks; (2) describing how every additional intermediary in the payment process -- every "link" in the chain -- adds risk, cost, and delay for small businesses and consumers; and (3) tracing how Congress has previously expanded direct access to Federal Reserve payment systems in response to market developments.

Section II, Faster Payments at Less Cost and Lower Risks: The Benefits of Granting Payment Processors Direct Access to Federal Reserve Payment Systems, explains the major benefits of extending direct access to Federal Reserve payment systems to nonbank payment processors. These benefits fall into the following categories: (1) lower costs through competition and innovation; (2) faster and more secure payments; (3) greater convenience from wider, more inclusive access; (4) better regulation and supervision of the payment system by the Federal Reserve; and (5) continued U.S. financial market leadership globally.

Section III, Addressing Objections to Direct Access for Payment Processors Through State Prudential Standards and Federal Risk Management Standards, reviews the objections the banking industry has raised to expanding direct access to Federal Reserve payment systems. Those objections include: (1) unfair competition to existing participants in the payment system; (2) risks to financial stability and monetary policy; (3) risk management policies and procedures; (4) consumer compliance; and (5) a lack of legal authority. This section explains how each of these objections may be addressed through a combination of state and federal oversight for payment processors imposed by an amendment to the Federal Reserve Act.

Section IV, A Comparative Analysis of Nonbank Access to Central Bank Payment Systems in Other Countries, explains the legal, regulatory, and operational pathways by which payment processors in the United Kingdom, European Union, and Canada have gained access to central bank payment systems. This section shows that these jurisdictions: (1) are further ahead than the U.S. in opening critical payment rails to nonbanks; (2) have established practical frameworks that address risk, policy, and financial stability concerns; and (3) have realized – or expect to see – meaningful benefits from expanding direct access to nonbank payment processors.

Section V, Pathways for Payment Processors to Gain Access to Reserve Bank Payment Systems, reviews the organizational options for payment processors to gain direct access to Federal Reserve payment systems under current law and explains the operational challenges to those options. The section then discusses two other organizational options that require changes in federal law: (1) enactment of a federal payment charter; and (2) an amendment to the Federal Reserve Act that would permit nonbank payment processors that meet certain prudential and risk management standards direct access to Federal Reserve payment systems. We find significant merit in a federal payment charter but believe that an amendment to the Federal Reserve Act is a practical first step to achieving the public policy benefits associated with expanded access. Appendix A is the text of such amendment.

Section VI, Conclusion, calls on Congress to amend the Federal Reserve Act to extend direct access to Federal Reserve payment systems and thereby improve the utility of those systems for consumers, small businesses, and other end-users.

SECTION I – THE MODERN PAYMENTS LANDSCAPE AND THE FEDERAL RESERVE'S ROLE

This section sets a foundation for the discussion of extending direct access to the Federal Reserve payment systems to nonbank payment processors. It does so by –

- Explaining electronic payments and the payment systems operated by the Federal Reserve Banks;
- Describing why every additional intermediary in the payment process — every link in the chain—adds risk, cost, and delay for small businesses and consumers; and
- Tracing how Congress has expanded direct access to Federal Reserve payment systems whenever the risks, costs, or delays associated with additional intermediaries grew unacceptable.

Electronic Payments Today

How Electronic Payments Work

Payments are, at their core, the transfer of funds from one party to another. When a payment is made by cash, there is an actual physical transfer of bank notes from one party to another. When a payment is made electronically, no physical transfer occurs. Instead, an electronic payment involves transmitting a series of payment instructions and recording the transfer on the account records (ledgers) of the institutions that hold the accounts of the parties involved in the transfer.

The process of electronic payments unfolds in two stages:

- Clearing – This is the exchange of information between parties (and their service providers) that establishes how the ledgers *should* change.
- Settlement – This is the moment the ledgers *do* change, extinguishing the payer's obligation and giving the payee final, irrevocable funds.

Figure 1 shows the various "actors" in an electronic payments system. The payments system is the technical, organizational, and legal framework that orchestrates clearing and settlement. In the center of the payment system, there is an operator and (in some cases) a settlement institution. The operator runs the rules, messaging standards, and technology of the system. The settlement institution holds the central ledger used to record transfers between participants, unless they settle directly with each other.

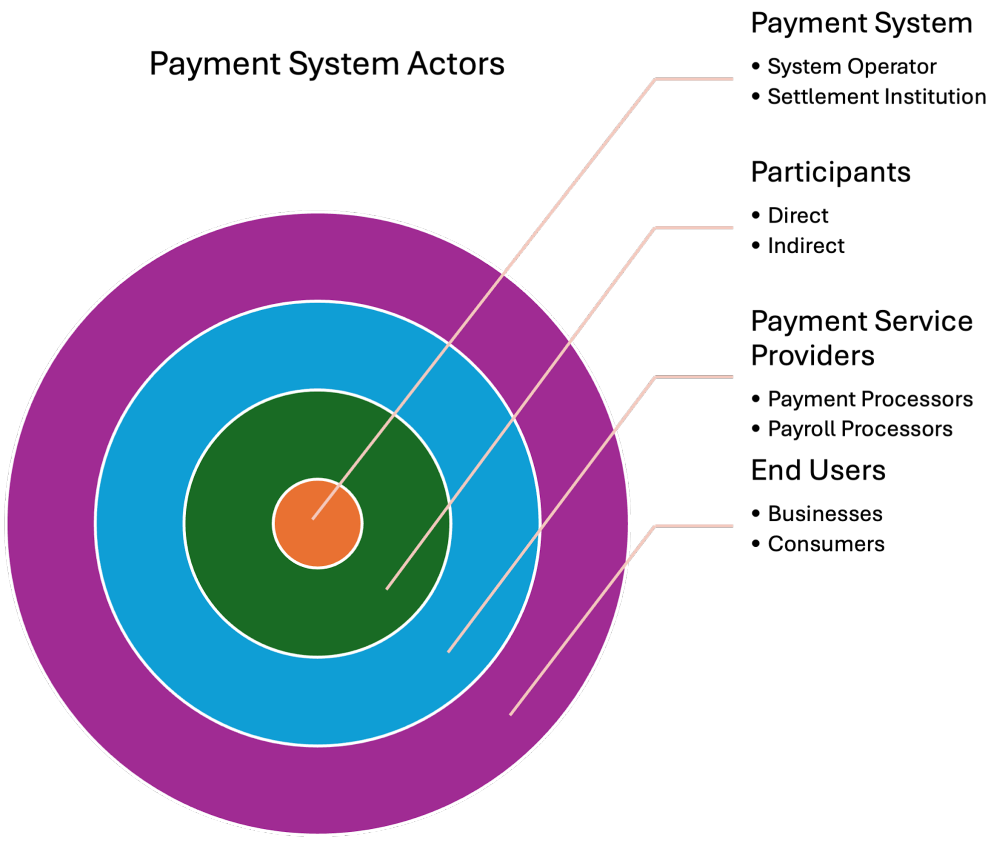
The second ring in the system consists of the participants that are admitted to membership in the system. Many payment systems have two tiers of participants: (1) direct participants that connect directly to the system and settle on the books of the settlement institution or bilaterally with other direct participants; and (2) indirect

participants that reach the system through a correspondent relationship with a direct participant.

In the outer circle stand the end users – the consumers and businesses that pay or are paid through the system. To reach the system, end users rely on a series of intermediaries. For most businesses, the first intermediary is a payment processor. The payment processor gives the business the means to receive payments and pay employees, usually through multiple payment systems. If the payment processor is not also a participant in these payment systems, it must contract with a participant "sponsor" to access the system.

Figure 1

Payment System Actors



Federal Reserve-Operated Payment Systems

When the Federal Reserve System was established in 1913, Congress gave the regional Reserve Banks the authority to exercise the functions of a clearinghouse for checks

and other payments.[1] Using these and other related provisions of the Federal Reserve Act,[2] the Federal Reserve Board and the Reserve Banks have established three electronic payment systems that are widely used to facilitate the transfer and settlement of funds for businesses, governments, and consumers: Fedwire,[3] FedACH,[4] and FedNow.[5]

The Reserve Banks act as the system operators and settlement institutions for all three systems, which reach every significant corner of the U.S. economy. Together, the systems processed more than $5 quadrillion in value in 2024. As figure 2 shows, Fedwire moves large-value credit transfers in real time (average ticket $5.4 million);[6] FedACH clears tens of millions of batched credits and debits daily (including payroll, Social Security, bills, person-to-person, and commercial electronic payments);[7] and FedNow, which was just launched in 2023, provides 24×7 instant payments and already includes over 1,300 participating institutions and an ecosystem of certified service providers.[8]

Figure 2

Federal Reserve Payment Systems

System	Function	Details
Fedwire	Large-value credit transfers	Real time, average ticket $5.4 million
FedACH	Batched credits and debits	Daily, including payroll, Social Security, bills, person-to-person, commercial electronic payments
FedNow	Instant payments	24×7, launched in 2023, over 1,300 participating institutions, ecosystem of certified service providers

[1] See Section 13, ¶1 of the Federal Reserve Act (12 U.S.C. § 342); Section 16, ¶12 of the Federal Reserve Act (12 U.S.C. § 360); and Section 16, ¶13 of the Federal Reserve Act (12 U.S.C. § 248-1).
[2] Other provisions of the Federal Reserve Act relevant to the establishment and operation of the Federal Reserve payment services are Section 4 (12 U.S.C. § 341), which permits the Reserve Banks to carry on the business of banking, Section 11(j) (12 U.S.C. § 248(j)), which gives the Board general supervisory authority over the Reserve Banks; and Section 11A (12 U.S.C. § 248a), which lists the Reserve Bank payment services.
[3] For additional information on the FedWire service see https://www.federalreserve.gov/paymentsystems/fedfunds_about.htm.
[4] For additional information on the FedACH service see https://www.federalreserve.gov/paymentsystems/fedach_about.htm
[5] For additional information on the FedNow service see https://www.federalreserve.gov/paymentsystems/fednow_about.htm
[6] Data on the utilization of FedWire may be found at: https://www.frbservices.org/resources/financial-services/wires/volume-value-stats/annual-stats.html.
[7] Data on the utilization of the FedACH service may be found at https://www.federalreserve.gov/paymentsystems/files/fedach_yearlycomm.pdf.
[8] "FedNow Service continues momentum in Q1 2025," FedNow, (April 16, 2025), https://explore.fednow.org/explore-the-city?id=3&building=news-center&postId=82&postTitle=fednow-service-continues-momentum-in-q1-2025.

The contractual and balance-sheet connection between a direct participant in one of these electronic payment systems and a Reserve Bank is a "master account."[9] Credits and debits arising from Fedwire, FedACH, and FedNow transfers post to that account. The direct participants in the payment systems are the "holders" of master accounts. Funds transfers through private payment networks, such as the Clearinghouse's Interbank Payments Systems ("CHIPS") and Real Time Payments ("RTP") system and the card networks, ultimately settle in a master account. Balances in a master account are effectively free of credit risk and, for depository institutions, earn interest at rates the Federal Reserve Board sets to implement monetary policy.

Under current law, "depository institutions" and certain financial infrastructure firms ("financial market utilities") are the only financial institutions eligible to hold a master account with a Reserve Bank.[10] Other institutions, including most payment processors, can only access the electronic payment systems operated by the Reserve Banks through a relationship with a depository institution. As explained below, this limitation adds cost, delay, and risk for end-users transferring funds through the systems.

Risk, Cost, and Extra Links in Today's Payment Chains

Risk and Cost in Every Link in the Chain

As explained above (and as shown in figure 3), payments from an end-user must pass through multiple intermediaries before they reach the payment systems operated by the Reserve Banks. Each link connecting one actor to the next in the chain introduces two categories of risk: pre-settlement risk, which is the risk an actor is unable, unwilling, or operationally incapable of fulfilling its obligations in the transfer; and post-settlement risk, which is the risk that a settled payment may later be reversed because of error, fraud, or dispute.

Each actor in the chain seeks to control these risks by pulling one or more of the following levers:

1. Restricting access to the system or service by setting eligibility criteria and approval processes;
2. Policing participants by imposing capital, liquidity, or operational requirements and supervising compliance;
3. Reducing exposure by delaying settlement or capping account or daylight-overdraft limits; or

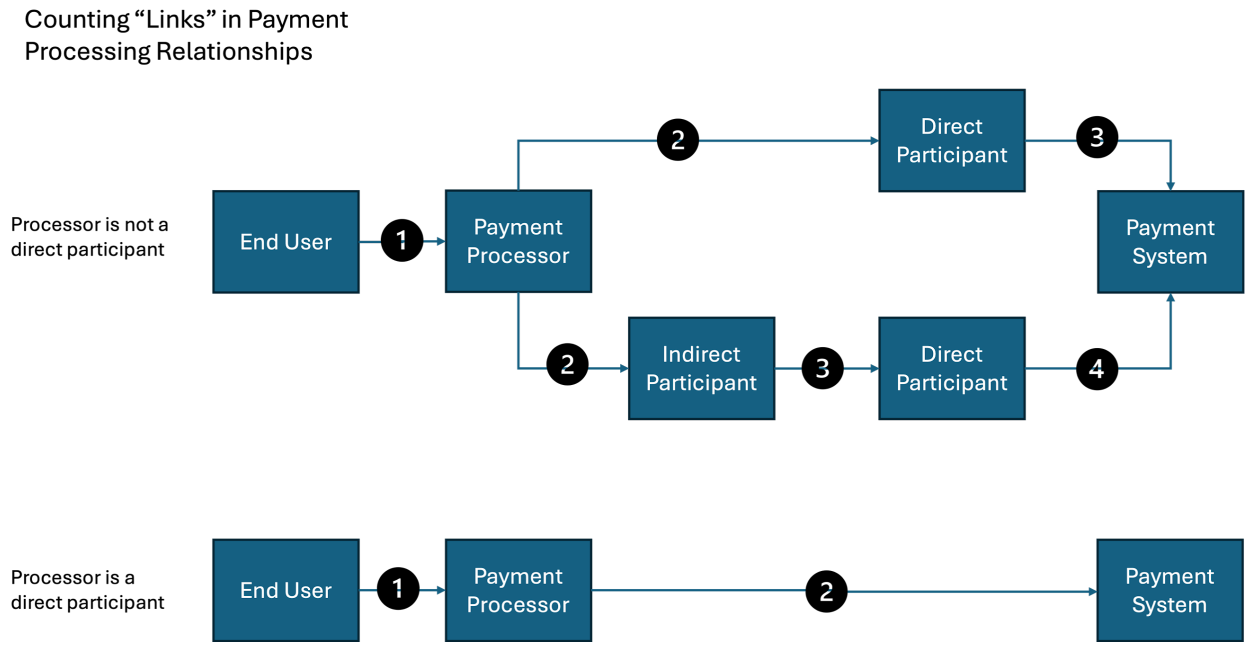
[9] Additional information on master accounts may be found in Federal Reserve Banks Operating Circular No. 1, *Account Relationships* (Sept. 1, 2023).
[10] See 12 U.S.C. § 461(b)(1)(A).

4. Socializing residual losses by charging fees that fund loss-sharing pools, cross-subsidies among customers, or insurance arrangements.

The costs of pulling these levers are cumulative. When a payment must pass through multiple correspondent banks and processors, each one duplicates the exercise. The result for a consumer or small business is higher fees, slower funds availability, and, in the worst case, the inability to obtain service at all (*i.e.,* "de-banking").

Figure 3

Links in Payment Processing Relationships



The Federal Reserve's Reliance on Access Restrictions

Historically, the Federal Reserve has addressed systemic payment risk mainly by pulling the first lever—restricting which institutions may hold a master account and thus have direct access to Reserve Bank payment systems. Under this approach, the Federal Reserve has limited access mostly to institutions that are subject to prudential regulatory requirements and supervision by a federal banking agency. By leveraging existing supervisory frameworks, the Federal Reserve effectively gains the benefits of "policing participants" without the cost of building a separate supervisory and regulatory apparatus.

While relying mostly on restricting direct access to Federal Reserve payment systems, the Federal Reserve does make some use of the other three levers. For example, the Reserve Banks issue a series of Operating Circulars that set the technical, legal, and

risk-management ground rules for participants.[11] The Operating Circulars establish the structure and rules around master accounts; set cut-off times and funds-transfer business days; address security procedures offered by the Reserve Banks to verify the authenticity of a payment order; specify format and media requirements for payment orders; specify the time and method of receipt, execution, and acceptance of a payment order and settlement of a Reserve Bank's payment obligation; prescribe time limits for the processing of payment orders; provide for the acceptance of documents in electronic form; identify messages that are not payment orders; and impose charges for funds-transfer services.[12]

Notwithstanding limited use of other levers, access restrictions remain the Federal Reserve's primary strategy for managing the risk from direct participants. The heavy reliance on access restriction is reflected in the tiered access framework issued by the Federal Reserve Board in 2022 (the "Access Guidelines").[13] That framework varies the rigor of the Federal Reserve's review of access requests based on the type of supervision the applicant is already subject to and, implicitly, the Federal Reserve's opinions about the quality of that supervision. As discussed below, those Federal Reserve opinions have occasionally needed nudges from Congress to keep pace with the changing needs of financial services providers and their customers.

Expanding Federal Reserve Access

While heavy reliance on restricting access simplifies oversight of the payment system for the Federal Reserve, it ultimately increases costs for end-users, especially small businesses. Restricting access inherently means more links in the payment chain. Each link adds costs, time delays, and the risk of failure. The result is that small businesses often pay higher fees, wait longer for funds to settle, and face a greater risk of losing access.

This is not a new issue. Congress has widened the circle of institutions eligible for direct access to Federal Reserve payment systems in response to market pressures. The most important of these expansions compelled the Federal Reserve either to recognize the adequacy of additional supervisory regimes or create new specialized regimes to address the risks of different types of institutions.

Initially, direct access to Federal Reserve payment systems was available only to commercial banks that were members of the Federal Reserve System ("member banks"), which are subject to direct supervision by the Federal Reserve or the Office of the

[11] The Federal Reserve Board reviews and approves all changes to these Circulars. See 77 Fed. Reg. 45917 (August 2, 2012).
[12] 12 C.F.R. § 210.40(c).
[13] "Guidelines for Evaluating Account and Services Requests," 87 Fed. Reg. 51,099 (Aug. 19, 2022) ("Access Guidelines"). The Access Guidelines initially were published for comment in May 2021, see 87 Fed. Reg. 25865 (May 11, 2021) ("Proposed Access Guidelines").

Comptroller of the Currency ("OCC").[14] Commercial banks that were not members of that System ("nonmember banks") had to rely upon relationships with member banks to clear checks and use other payment services, as did savings associations and credit unions.[15]

In 1980, Congress expanded direct access to Federal Reserve payment systems to "depository institutions."[16] This change was made in response to pressures from thrift institutions, which wanted access to Federal Reserve payment services.[17] The thrifts were assisted by the U.S. Department of Justice, which supported direct access to Federal Reserve payment services for thrift institutions on anti-trust grounds, even though banks and thrifts were subject to different regulatory regimes.[18]

In 2010, Congress further expanded direct access to certain nonbank clearing and settlement firms – specifically, those that serve Wall Street. As part of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), Congress extended direct access to Reserve Bank payment firms designated as financial market utilities ("FMUs") by the Financial Stability Oversight Council ("FSOC").[19] FMUs, such as The Depository Trust Company, are private-sector entities that manage or operate multilateral systems for the purpose of transferring, clearing, or settling payments and other financial transactions among financial institutions. Extending direct access to Reserve Bank payment systems enables FMUs to control the processing of critical large dollar payments on a timelier basis, which reduces the potential for disruptions in the settlement of payments. In

---

[14] National banks that are chartered by the OCC are required to be members of the Federal Reserve System (12 U.S.C. § 222), and state-chartered banks may elect to join the Federal Reserve System (12 U.S.C. § 321).

[15] See Anatoli Kuprianov, *The Monetary Control Act and the Role of the Federal Reserve in Interbank Clearing Market*, Economic Review, Federal Reserve Bank of Richmond, 1985, 23-24, https://www.richmondfed.org/-/media/richmondfedorg/publications/research/economic_review/1985/pdf/er710403.pdf (hereinafter "Kuprianov")

[16] This change was made as part of the Depository Institutions Deregulation and Monetary Control Act of 1980, P.L. 96-221. That Act amended section 19(b) of the Federal Reserve Act to include a definition of "depository institutions" that applies to Federal Reserve payment services. That section defines the term "depository institutions" to mean: (1) banks and thrift institutions insured by the Federal Deposit Insurance Corporation ("FDIC") or that are eligible to apply to be insured by the FDIC; (2) credit unions insured by the National Credit Union Administration ("NCUA") or that are eligible to be insured by the NCUA; and (3) members of the Federal Home Loan Bank System, which includes banks, thrifts, insurance companies, and community development financial institutions that engage in mortgage lending. See 12 U.S.C. § 461(b)(1)(A)).

[17] See Kuprianov at 23-26.

[18] *Id.* at 23. In the same legislation, Congress also directed the Federal Reserve Board to establish a schedule of fees for Federal Reserve payment services to ensure that such services were priced to cover risk and not have an unfair competitive advantage over private sector payment services. See 12 U.S.C. § 248a.

[19] See Section 804 of the Dodd-Frank Act, which is codified at 12 U.S.C. § 5463. FSOC has designated eight entities as FMUs subject to federal supervision by either the Board, the Commodities Futures Trading Commission, or the Securities and Exchange Commission, depending upon the activities of the FMU: The Clearing House Payments Company L.L.C. on the basis of its role as operator of the Clearing House Interbank Payments System; CLS Bank International; Chicago Mercantile Exchange, Inc.; The Depository Trust Company; Fixed Income Clearing Corporation; ICE Clear Credit LLC; National Securities Clearing Corporation; and The Options Clearing Corporation

exchange for direct access to Reserve Bank payment systems, FMUs are subject to special Federal Reserve risk management standards.[20]

The Federal Reserve currently is facing new pressures to expand direct access to Reserve Bank payment systems. These pressures come from two related but distinct trends: (1) the rise of new types of depository institutions that are not traditional banks and (2) the rise of nonbank payment processors as the dominant gateway to the payment system for small businesses and consumers.

While these two trends share common roots, they pose fundamentally different questions and call for different policy responses. The first trend, which gets the most attention, challenges the Federal Reserve's discretion to approve access for novel depository institutions that are *legally eligible* for master accounts but raise Federal Reserve concerns about payment system risk or monetary policy.[21] The trend has sparked several high-profile lawsuits;[22] prompted the issuance of the Federal Reserve Board's three-tier Access Guidelines;[23] and led to a Congressional mandate for a public database of master account access requests (the "Master Account Database").[24]

This paper does not address access for novel depository institutions. Instead, it focuses on the second trend – the rise of nonbank payment processors as the dominant way small businesses and many consumers access payments. For well-established nonbank payment processors, the issue is not meeting the Federal Reserve's access criteria – it is being legally eligible to apply for access.

Under current law, even well-established nonbank payment processors serving millions of U.S. end-users are ineligible to apply for master account access, regardless of how well they meet the Federal Reserve's Access Guidelines. Solving this problem does not require the Federal Reserve to change its risk policies, but it does require a change in the law. The following sections explain why this change is important and how it can be done safely.

Summary

Electronic payments operated by the Federal Reserve are widely used by businesses, governments, and consumers. However, based upon existing restrictions,

---

[20] See 12 CFR Part 234 ("Designated Financial Market Utilities (Regulation HH)").

[21] For example, Custodia Bank, a Wyoming-chartered special-purpose depository institution sought a master account from the Federal Reserve Bank of Kansas to facilitate crypto-asset custody and related services.

[22] See, *e.g.*, *Custodia Bank, Inc. v. Fed. Rsrv. Bd. of Governors*, 728 F. Supp. 3d 1227 (D. Wyo. 2024); *TNB USA Inc. v. FRB of N.Y.*, 2020 U.S. Dist. LEXIS 62676 (S.D.N.Y. Mar. 25, 2020).

[23] See *Proposed Access Guidelines* at 25,866 (noting that "there has been a recent uptick in novel charter types being authorized or considered across the country and, as a result, the Reserve Banks are receiving an increasing number of inquiries and requests for access to accounts and services from novel institutions.")

[24] See 12 U.S.C. § 248c (requiring the Federal Reserve Board to establish a public database of access requests.)

nonbank payment processors must utilize depository institutions to access those systems. This results in additional intermediaries in the payment process, which adds risk, cost, and delay in the transfer of funds. Congress has expanded direct access to Federal Reserve payment systems in response to market developments and should consider doing so again for qualified nonbank payment processors in order to facilitate faster payments at less cost and lower risk.

SECTION II – FASTER PAYMENTS AT LESS COST AND LOWER RISKS: THE BENEFITS OF GRANTING PAYMENT PROCESSORS DIRECT ACCESS TO FEDERAL RESERVE PAYMENT SYSTEMS

Allowing nonbank payment processors direct access to Federal Reserve payment systems would create economic benefits for consumers, businesses, and the economy. These benefits have been recognized by Republican and Democratic administrations, which have embraced the need to modernize the nation's existing legal framework for payments to ensure that the United States remains a leader in a highly competitive and global financial marketplace.[25]

This section explains the expected benefits from permitting payment processors direct access to Federal Reserve payment systems. Those benefits fall into five broad categories: (1) lower costs through competition and innovation; (2) faster and more secure payments; (3) greater convenience with wider, more inclusive access; (4) better regulation and supervision at the federal level; and (5) continued U.S. financial market leadership globally.

Lower Costs Through Competition

Among developed countries, the United States has the highest costs associated with payments.[26] As a result, U.S. businesses and consumers spend more on financial payments than businesses and consumers in other foreign markets.[27] This issue was frequently raised in comment letters filed with the Federal Reserve Board during the development of its Access Guidelines. For example, one fintech trade association stated that "Providing

---

[25] See Core Principles for Regulating the United States Financial System, Exec. Order No. 13,772, 82 Fed. Reg. 9,965 (Feb. 3, 2017); U.S. Department of the Treasury, *A Financial System that Creates Economic Opportunities: Nonbank financials, Fintech, and Innovation*, Washington, D.C. (July 31, 2018) https://home.treasury.gov/sites/default/files/2018-08/A-Financial-System-that-Creates-Economic-Opportunities---Nonbank-Financials-Fintech-and-Innovation.pdf; Remarks by Undersecretary for Domestic Finance Nellie Liang "Modernizing the Regulatory Framework for Domestic Payments" at Federal Reserve Bank of Chicago (October 9, 2024), https://home.treasury.gov/news/press-releases/jy2639 (hereinafter "Liang Payment Modernization Remarks").

[26] Dan Awrey, *Beyond Banks: Technology, Regulation, and the Future of Money* (Princeton, NJ: Princeton University Press, 2024), p. 123 (hereinafter "Awrey").

[27] Hon. Nellie Liang, Under Secretary for Domestic Finance, U.S. Department of the Treasury, "Modernizing US Money and Payments: Technological and Regulatory Considerations," Peterson Institute, Washington, D.C. (April 17, 2024), https://home.treasury.gov/news/press-releases/jy2631.

fintech companies with access to federal payments infrastructure would substantially lower costs for payments services, increase innovation and competition, and diversify significant infrastructure risk away from single points of failure."[28]

One source of these costs is the fees that nonbank processors must pay to the depository institutions that are direct participants in the systems and act as their "gatekeepers." For example, one technology company executive told us that its bank charges $0.225 per FedNow transaction, a 500 percent markup on the $0.045 fee the Reserve Bank charges the bank.[29] The executive estimated that direct access for nonbanks could lower transaction costs by roughly 33 percent for FedNow services and 40 percent for ACH transactions, even allowing for a reasonable profit for the direct-access processor.[30]

Smaller banks, in particular, would experience lower processing fees if payment processors had direct access to Federal Reserve payment systems. Many smaller banks are "indirect participants" and pay larger "correspondent" banks to provide them with access to Federal Reserve payment systems. Competition from direct-access payment providers would reduce these fees.

A recent survey by the Conference of State Bank Supervisors ("CSBS") of over 350 community banks with total assets of less than $10 billion highlights the potential for payment processors to help small banks access Federal Reserve payment systems.[31] The CSBS survey revealed that only 23 percent of the community banks surveyed used FedNow to receive payments, while 44 percent indicated that they intended to use those services in the next twelve months. This leaves 32 percent of the banks surveyed that have no such plans to access FedNow during the coming year. Similarly, only 8.6 percent of the banks surveyed use FedNow to send payments, while 39 percent intend to do so in the next twelve months. The majority of community banks surveyed, over 50 percent, have no plans to use FedNow services to send money for their customers in the next twelve months. This data suggests that there is a future competitive opportunity for payment processors to assist community banks in using the FedNow service.

---

[28] Letter to Ann F. Misback, Secretary, Board of Governors, Federal Reserve System from Penny Lee, Chief Executive Officer, Financial Technology Association, "Response to Request for Comment on Supplement in the Board's Proposed Framework for Evaluating Account and Services Requests," (Docket No. OP-1765), Board of Governors, Federal Reserve System (April 22, 2022), https://www.ftassociation.org/wp-content/uploads/2022/04/FTA-Letter-on-Fed-Updated-Proposal_April-2022.pdf (hereinafter "FTA Submission").

[29] Payment company interview (April 12, 2025); Federal Reserve, FedNow Service 2025 Fee Schedule, https://www.frbservices.org/resources/fees/fednow-2025.

[30] Company interview (April 12, 2025).

[31] Conference of State Bank Supervisors (CSBS), Annual Survey of Community Banks (2024), https://www.csbs.org/sites/default/files/other-files/FINAL2024CSBSSurvey.pdf.

Faster and More Secure Payments

As noted in Section I, the current framework for Federal Reserve payment systems functions like a chain with multiple actors. Each additional link in this chain not only adds costs to the transaction but also introduces risks based upon the quality and security of the actor's operations. Reducing the number of links would enable faster and more secure payments for consumers and small businesses.

Small businesses, in particular, need to collect money owed to them in a timely manner so they can pay their suppliers, employees, and others on time, all while minimizing their costs so they can make a profit and grow their business. Our interviews with small businesses elicited numerous examples of the importance of faster and more secure payments. One California small business owner described the cash-flow issues he experiences when getting paid by customers on a net-30-day basis rather than instantly. He also expressed frustration about the lack of cross-border, real time payment options, which he said would be a game changer for small businesses like his that are looking for new markets globally.

Another California small business owner discussed the challenges she faced because of slow payments from her customers. There have been times when she had to delay paying her employees while waiting for funds being held by her bank for days before becoming available to her. Another small business owner described the value she derived from being able to pay the part-time employees at her wedding planning business instantly at the end of a one-day event, which helps her attract good employees and run a successful business.

An owner of a small marketing firm in Idaho described how faster payments reduced his daily liquidity pressures, as well as the operational stress of running his business. Some of his customers batch their ACH payments, which can delay the payment for weeks. Other customers pay with a "virtual" card that carries higher fees and eats into profit margins.

These examples underscore the value of faster and more secure payments to small businesses. By reducing the number of links in the payment chain, allowing payment processors direct access to Federal Reserve payments systems would help small businesses save both money and time while knowing their payments were secure end to end.

Greater Convenience with Wider, More Inclusive Access

Another benefit of expanding direct access to Federal Reserve payment systems is the greater convenience that new payments providers would offer to all types of consumers, including those without a banking relationship. Providing access to more people, many of whom have difficulty accessing the payments system today, has the

potential to bring more individuals into the banking system and address concerns about the "unbanked" and "under-banked."

Well before the Federal Reserve adopted its FedNow service of real time payments, there was a strong push to use faster payments, including instant payments, to alleviate the financial hardships and costs incurred by lower-income consumers. These consumers routinely pay bank overdraft fees, payday lender fees, and check cashing fees that could be significantly reduced or eliminated through modernized payment systems.

Aaron Klein, a Senior Fellow at the Brookings Institution and a leading advocate for modernizing payments, argued in a 2019 paper that moving to real time payments could save consumers as much as $7 billion annually by his estimates:

> In the aggregate, high cost cashiers, 'pay day' lenders and bank overdraft fees totaled around $34 billion of revenue in 2015 (collection fees would add to this). There are no precise estimates as to what share of that figure would be fixed by real time payments. A conservative guess of 20 percent would result in about $7 billion in savings a year to lower income families directly from real time payments. This comes at no cost or savings to the wealthier half of Americans who generally do[32]

Similarly, a 2021 study by the Federal Reserve Bank of Kansas found that nonbank payment providers helped previously unbanked households through payments inclusion, giving them more access options and alternatives to traditional bank payment systems or cash transactions.[33]

Less Risk Through Better Federal Regulation and Supervision with Greater Transparency

As we noted in Section I, nonbank payment processors are the dominant way small businesses and consumers access payments. Expanding direct access to Federal Reserve payment systems to these payment processors would provide the Federal Reserve with greater visibility into the payments system and reduce systemic risks in the system.

The direct-access framework proposed by this paper is based, in part, on the Board's Access Guidelines and incorporates supervision of direct-access processors by a Reserve Bank. Thus, as nonbank payment processors gain direct access to the Federal

---

[32] Aaron Klein, "Real-time payments can help combat inequality," The Brookings Institution (March 6, 2019), https://www.brookings.edu/articles/real-time-payments-can-help-combat-inequality/.

[33] Ying Lei Toh, "How Much Do Nonbank Transaction Accounts Improve Access to Digital Payments for Unbanked Households?" Federal Reserve Bank of Kansas (Nov. 29, 2023), https://www.kansascityfed.org/research/payments-system-research-briefings/how-much-do-nonbank-transaction-accounts-improve-access-to-digital-payments-for-unbanked-households/.

Reserve payment systems, the Federal Reserve would gain insight into the operations and activities of these key actors in the payment system.

The evolution of direct access to Federal Reserve payment systems demonstrates that the expansion of access to new types of institutions has helped to diversify and decentralize risk. Expansion of access to all depository institutions and FMUs has given the Federal Reserve greater transparency into the broader payments system while simultaneously bringing more payments providers under Federal Reserve purview and oversight.

Maintaining U.S. Financial Leadership Globally

In its 2018 report on ensuring the financial system was a platform for economic opportunities, the U.S. Treasury Department acknowledged that the American regulatory system had slowed the evolution of the payments system compared to other countries, putting the United States at a competitive disadvantage with other nations and delaying payments settlements for consumers and businesses needlessly.[34] The report pointed out that any unnecessary delays in payments settlements can stifle business and increase the time when credit and counterparty risks need to be actively monitored and managed to avoid potential losses.[35]

The benefits of modernizing payment systems are gaining more attention from officials and industry participants alike across multiple jurisdictions. For example, in 2024, the Bank for International Settlements ("BIS") conducted an extensive, worldwide study that concluded there are a number of benefits from modernizing payments systems to encourage faster, more efficient, and secure transactions for payments customers. A key paragraph from that BIS study summarizes the range of benefits that are possible:

> The popularity of fast payments stems from the variety of benefits they provide. Fast payments can offer individuals and businesses with a fast, reliable, and secure digital alternative to cash. This is particularly useful in countries with low debit and credit card penetration. Yet even in countries with high card use, fast payments can offer faster and cheaper access to funds for businesses. By generating digital footprints, they can provide a gateway to other retail financial services (like credit) for the financially excluded … Moreover, when fast payments enable interoperability, they allow users to move money easily across PSPs [payment service providers], thus boosting competition … For governments, which are also important end

[34] U.S. Department of the Treasury, "A Financial System that Creates Economic Opportunities: Nonbank financials, FinTechs, and Innovation," (2018), https://home.treasury.gov/sites/default/files/2018-08/A-Financial-System-that-Creates-Economic-Opportunities---Nonbank-Financials-Fintech-and-Innovation.pdf at 145, 155.
[35] Id. at 155.

> users of payment services, fast payments can help streamline direct benefit transfers or wage payments. For example, in some jurisdictions, governments relied on FPS [faster payment service] to distribute Covid-19-related benefit payments to those in need … FPS can also trigger enhancements in the larger payment ecosystem and enable further innovations…..[36]

More recently, the G7 Finance Ministers and Central Bank Governors reaffirmed the important role that payments play in facilitating cross-border financial flows and the benefits for economic growth and development. Their May 2025 communique stated:

> Enhancing cross-border payments can have widespread benefits for citizens and economies worldwide. We remain committed to delivering cheaper, faster, more transparent, and more accessible cross-border payments while maintaining their safety, resilience, and financial integrity.[37]

Given the prominent role the U.S. financial system (including the payment system) plays in the global economy, maintaining U.S. leadership raises broader competitive issues with geopolitical implications. Former U.S. Treasury Under Secretary Nellie Liang was one of the first policymakers to recognize a connection between the U.S. leadership role in financial services globally and the expected benefit from allowing nonbank payments processors direct access to Federal Reserve payments systems. In remarks on payments modernization, Under Secretary Liang noted that "upgrading the payment rails to support use of the dollar in cross-border arrangements could help to preserve the dollar's global role, support U.S. national security tools, and reduce fragmentation in the international financial system."[38]

Later, in her last public statement as Under Secretary, Liang re-emphasized the general case for modernizing the federal payment regulatory framework, specifically discussing the benefits that could arise from nonbank access to Federal Reserve payment systems. Liang stated that a modernized federal framework can:

> Promote innovation and fair competition that benefit consumers through a consistent and comprehensive, though calibrated, regulatory framework for

---

[36] Jon Frost, Priscilla Koo Wilkens, Anneke Kosse, Vatsala Shreeti, and Carolina Velasquez, "Fast Payments: Design and Adoption," *BIS Quarterly* (Mar. 2024), https://www.bis.org/publ/qtrpdf/r_qt2403c.pdf at 34.
[37] G7 Finance Ministers and Central Bank Governors, Communique, (May 20-22, 2025), https://www.canada.ca/en/department-finance/news/2025/05/g7-finance-ministers-and-central-bank-governors-communique.html.
[38] Remarks by Under Secretary for Domestic Finance Nellie Liang, "Modernizing U.S. Money and Payments: Technological and Regulatory Considerations" at the Peterson Institute for International Economics, U.S. Dep't of the Treasury (Apr. 17, 2024), https://home.treasury.gov/news/press-releases/jy2631.

bank and nonbank payment providers. It is not the case today that the same activities and the same risks have the same regulatory requirements. *The introduction of a federal prudential regulatory framework for payments also raises the possibility that e-money issuers could get direct access to some public payment rails, like FedNow. Direct access would promote competition and innovation for payment services* [emphasis added].[39]

Summary

In summary, as argued by policymakers in both Republican and Democratic administrations, the nation's payment systems need to be modernized to serve customers better and keep the United States at the forefront of competing in a rapidly changing and innovation-driven global financial marketplace for products and services. Allowing nonbank payment processors direct access to Federal Reserve payment systems would be a key step in such modernization. Direct access to Federal Reserve payment systems by nonbank payment processors would lower costs for end users, reduce risks in the system by eliminating links in the payments chain, promote faster payments, facilitate a more inclusive payment system, give the Federal Reserve greater insight into the inner workings of the payments system, and help to preserve the U.S. role as a global financial services leader in payments.

SECTION III – ADDRESSING OBJECTIONS TO DIRECT ACCESS THROUGH STATE PRUDENTIAL STANDARDS AND FEDERAL RISK MANAGEMENT STANDARDS

Depository institutions that have direct access to Federal Reserve payment systems have raised several objections to extending direct access to those systems to nonbanks. These objections relate primarily to the different supervisory and regulatory regimes applicable to depository institutions and nonbanks. This section explains those objections and addresses how they may be overcome by an amendment to the Federal Reserve Act. In doing so, this section answers two key questions:

- How to address the practical effects of allowing new nonbank competitors direct access to payment services historically provided only to insured depository institutions and a handful of financial market utilities?
- What prudential and risk management framework is appropriate and effective to regulate and supervise nonbanks that may not have either deposits or loans on their balance sheets?

Policy Objections to Expanding Access to Federal Reserve Payment Systems

The objections raised by the banking industry to nonbank access to Federal Reserve payment systems fall into five broad categories: (1) unfair competition ("level playing

[39] Liang Payment Modernization Remarks.

field"); (2) risks to financial stability and monetary policy; (3) risk management; (4) consumer compliance; and (5) a lack of legal authority.

Unfair Competition

Large banks have long dominated the U.S. payment systems. Direct access to Federal Reserve payment systems gives them a competitive edge across the range of other banking and other financial services that they provide for businesses and consumers. Direct access to Federal Reserve payment systems by nonbanks threatens this competitive advantage.

Much of the banking industry's opposition to expanding access to Federal Reserve payment systems is rooted in differences in regulation. Banks argue that nonbanks would have an unfair competitive advantage if they were not subject to bank regulatory requirements such as minimum capital and liquidity standards, compliance with laws such as the Community Reinvestment Act ("CRA"), compliance with anti-money laundering and customer privacy laws, and enterprise-wide risk management standards. In expanding access to Federal Reserve payment systems, it will be necessary to address this "level playing field" concern.

Risks to Financial Stability and Monetary Policy

The banking industry also has raised concerns about the impact of expanded access to Federal Reserve payment systems on financial stability and monetary policy. For example, a 2021 report by the Bank Policy Institute ("BPI") highlights the potential systemic risks associated with depositor runs at special purpose state banks that hold uninsured deposits and are eligible for direct access to Federal Reserve payment systems.[40] In the same report, BPI expresses concern about the potential impact of special purpose state banks on the ability of the Federal Reserve to conduct monetary policy. BPI worries that such banks, particularly pass-through investment entities, could affect the Federal Reserve's reserves, interest rates, balance sheet, and short-term funding markets.[41]

The denials of access requests submitted by certain uninsured, special purpose state banks illustrate the concerns that the Federal Reserve Board and the Reserve Banks have with expanded access for banks engaged in novel businesses. For example, TNB USA, Inc. ("TNB"), a Connecticut uninsured bank, was denied access to Federal Reserve payment systems by the Federal Reserve Bank of New York after its application had been pending for six years. TNB's proposed business model was to accept deposits from institutions such as money market funds and place the deposits into a master account at the New York Federal Reserve Bank that would earn an attractive rate of interest for the depositors.

---

[40] Bank Policy Institute, "Federal Account Access for Nonbanks: An Analysis of the Policy Implications and Potential Risks to the Financial System" (June 2021), https://bpi.com/fed-account-access/ at 27-29. See also Bank Policy Institute, "FinTech Access to Fed Accounts and the Nation's Payments System; A Primer," (May 21, 2021), https://bpi.com/fintech-access-to-fed-accounts-and-the-nations-payments-systems-a-primer/.
[41] *Id*. at 29-30.

Reportedly, the New York Reserve Bank denied the application based upon potential adverse effects on monetary policy if such deposits could be removed during periods of economic stress.[42]

Similarly, Custodia, a Wyoming state-chartered special purpose bank, was denied access to a master account by the Federal Reserve Bank of Kansas City. Custodia's proposed business model was to provide custodial services for cryptocurrency firms and connect those firms to the payment system through a Reserve Bank master account. While the Federal Reserve Bank of Kansas City did not publicly release an explanation for the denial, on the same day the Reserve Bank denied Custodia's request, the Federal Reserve Board denied Custodia's request for membership in the Federal Reserve System on the basis of Custodia's "novel and unprecedented" business model and deficiencies in its risk management practices.[43] Custodia challenged the denial of its request in federal court, but the court ruled that access to a Reserve Bank master account and payment services is not a right and is within the discretion of a Reserve Bank.[44]

In expanding access to Federal Reserve payment systems, these risks to financial stability and monetary policy should be addressed.

Risk Management

Ensuring comparable risk management between depository institutions and nonbanks is another concern expressed by the banking industry. The banking industry argues that if banks are regulated and supervised for the payments activities they provide to their customers, then new entrants with access to the same Federal Reserve payments systems should adhere to the same risk management requirements. Clearly, the basic tenets of sound risk management and good governance with respect to financial, operational, cyber, legal, and other types of applicable risk should apply to a nonbank, if for no other reason than to ensure that the applicant for Federal Reserve payment systems remains a viable, ongoing concern. However, as discussed below, those risk management standards should be aligned with the risks posed by the nonbank's business model.

Consumer Compliance

Another argument advanced by banks that participate in Federal Reserve payment systems is that nonbanks should comply with the same social policy and consumer laws as

---

[42] Gabrielle Saulsbery, *Fed denies TNB master account after 6 years, Yahoo Finance* (Feb. 27, 2024), https://finance.yahoo.com/news/fed-denies-tnb-master-account-122629968.html. In 2018, TNB filed a complaint in a federal district court seeking a declaratory judgment that it was entitled to a Reserve Bank master account. The complaint was dismissed as unripe. See *TNB USA Inc. v. Federal Reserve Bank of New York*, Case No. 1:18-cv-07978-ALC-KNF (S.D.N.Y. 2020).

[43] FRB Order No. 2023-02 (January 27, 2023).

[44] *Custodia Bank, Inc. v. Fed. Reserve Bd. of Govs. and FRB Kansas City*, No. 12-22-cv-00125-SWS (D. Wyo. March 2024) (appeal docketed, No. 24-8024 (10th Cir. Apr. 26, 2024)) .

banks. They frequently cite the CRA as an example, contending that if banks bear the regulatory costs and reporting burdens of CRA compliance, then nonbanks with access to Federal Reserve payment systems should do the same.[45] This position has some merit, but only if a nonbank accepts deposits and makes loans like a traditional bank. Meanwhile, consumer financial protection laws and regulations generally apply to both banks and non-banks engaged in the same activity.

Legal Authority

Finally, the banking industry asserts that the Federal Reserve Act does not permit nonbanks to have access to Federal Reserve payment systems, and that the Reserve Banks are not required by the Federal Reserve Act to provide such services to a depository institution that is uninsured but is eligible for deposit insurance.[46] These are valid positions: the first is clearly established by the current law, while the second has been affirmed by federal courts.

Addressing the Policy Objections to Expanded Access to Federal Reserve Payment Systems

Each of the objections to expanding access to Federal Reserve payment systems may be addressed by a change in federal law. We have drafted such an amendment, which appears in Appendix A. That amendment would settle any question about the legal authority for a nonbank payment processor to have direct access to Reserve Bank payment systems by expressly permitting a payment processor to apply for access to those payment systems. It also addresses objections raised by the banking industry related to the supervision and regulation of nonbanks by limiting access to payment processors that meet a combination of prudential and risk management standards imposed by state regulatory authorities and the Federal Reserve Board, as described below.

State Regulation and Supervision

The proposed amendment would limit access to Federal Reserve payment systems to payment processors that are licensed by a state that has adopted certain reporting, prudential, and supervision provisions of the 2021 model Money Transmission Modernization Act ("MTMA") developed by the CSBS (or a law that imposes comparable requirements.) The MTMA,[47] which was developed in response to the changing payments landscape, has already been adopted in whole or in part by 31 states. It is designed to –

[45] *Id.* at 15-18.
[46] *Id.* at 9-12, 15-18.
[47] Conference of State Bank Supervisors, Model Money Transmission Modernization Act (2021), https://www.csbs.org/csbs-money-transmission-modernization-act-mtma.

- Ensure that states can coordinate in all areas of regulation, licensing, and supervision to eliminate unnecessary regulatory burden and effectively utilize regulatory resources;
- Protect consumers from financial crimes;
- Standardize the types of payment activities that are subject to licensing or may be exempt from licensing; and
- Modernize safety and soundness requirements to ensure that consumer funds are protected in a competitive and innovative environment.

Under our proposed amendment to the Federal Reserve Act, a payment processor would need to be licensed as a money transmitter under one or more state laws that include the following key elements from the MTMA (or comparable provisions):[48]

- Reporting – Regular reports of condition; audited financial statements for companies above a certain size;[49] reporting of certain events such as bankruptcy filing or any other judicial or administrative action;[50] and state regulator access to reports filed under the Bank Secrecy Act ("BSA");[51]
- Prudential Standards – Minimum net worth and a surety bond requirement based on the scale of operations; and permissible investments requirements based on aggregate outstanding transmission obligations;[52] and
- Supervision – "Networked supervision" or similar interstate cooperative supervision arrangements that enable the identification of the company's "lead" regulator.[53]

Taken together, these provisions establish a financial soundness and supervisory baseline upon which the Federal Reserve can layer the additional risk management and oversight described below. The provisions spare the Federal Reserve from having to replicate the basic building blocks of depository institution regulation to oversee the payment processor. Instead, they enable a Reserve Bank to interface with a primary regulator that already has access to the information needed to conduct basic oversight of

---

[48] These provisions are largely absent or weaker in the Uniform Money Services Act, the MTMA's less popular predecessor, though versions comparable to the MTMA are included in the money transmission laws of some non-MTMA states. See, e.g. Fla. Stat. 560.209 (reports of condition, audits); 560.126 (event-driven reporting); 560.123 (BSA/AML); 560.210 (permissible investments); 560.109 (interstate cooperation).
[49] MTMA §§ 7.01, 7.02.
[50] MTMA §§ 7.03, 7.04.
[51] MTMA § 7.05.
[52] MTMA art. X.
[53] MTMA § 4.04.

the nonbank, just as the Reserve Bank relies on the supervisors of its uninsured depository institution accountholders.[54]

The Federal Reserve Board's Risk Management Standards

Our proposed amendment to the Federal Reserve Act would require a payment processor to meet risk management standards modeled on the Federal Reserve Board's Access Guidelines. Those Guidelines set out six principles that the Reserve Banks use in evaluating the risks posed by an institution:[55]

1. Each institution requesting an account or services must be eligible under the Federal Reserve Act or other federal statute to maintain an account at a Reserve Bank and receive Federal Reserve services and should have a well-founded, clear, transparent, and enforceable legal basis for its operations.
2. Provision of an account and services to an institution should not present or create undo credit, operational, settlement, cyber, or other risks to the Reserve Bank.
3. Provision of an account and services to an institution should not present or create under credit, liquidity, operational, settlement, cyber, or other risks to the overall payment system.
4. Provision of an account and services to an institution should not create undue risk to the stability of the U.S. financial system.
5. Provision of an account and services to an institution should not create undue risk to the overall economy by facilitating activities such as money laundering, terrorism financing, fraud, cybercrimes, economic or trade sanctions violations, or other illicit activity.
6. Provision of an account and services to an institution should not adversely affect the Federal Reserve's ability to implement monetary policy.

Principle 1 speaks to the legal authority for access. The other principles require applicants for access to Federal Reserve payment systems to have a comprehensive, enterprise-wide risk management system overseen by a board of directors to manage any

[54] The practical necessity for such a baseline is one reason why we propose requiring money transmission licenses despite the fact that – by embracing an "agent of the payee" exception to the definition of money transmission – the MTMA has the practical effect of exempting some payment processing from money transmission licensing.

[55] As previously noted, the scope of the review under the Access Guidelines is based upon the supervisory framework applicable to the institution. Tier 1 institutions are depository institutions that are federally insured. Tier 2 are institutions that are not federally insured but are subject to prudential supervision by a federal banking agency, such as a national trust bank owned by a bank holding company. Tier 3 institutions are institutions that are not federally insured and are not considered in Tier 2. Depository institutions in tiers 2 or 3 receive greater review and scrutiny than institutions in tier 1.

risk or illicit activity in a manner that does not harm the U.S. economy, financial system, or the Federal Reserve's ability to conduct monetary policy.

There are four major elements in Principle 2 used by the Reserve Banks during the approval process. These are basic risk management elements that would need to be implemented by any company seeking direct access to Federal Reserve payment systems. Under the first element, the Reserve Bank assesses the applicant's risk profile contained in the examination report by the state or national chartering authority and primary supervisor. In the case of a payment processor that holds money transmitter licenses, this would be the state authority (or authorities) that licenses and supervises the payment processor as a money transmitter.

Under the second element, the Reserve Bank confirms that the applicant has an effective risk management and governance program to ensure that the company operates in a safe and sound manner during both normal economic times and during times of idiosyncratic and market stress. This means: (1) having a risk framework with all the appropriate policies, procedures, and systems in place; (2) ensuring oversight by the board of directors as well as supervisors; and (3) identifying all possible risks and risk tolerances (*i.e.*, staying within bounds of the company's risk appetite).

Under the third element, the Reserve Bank confirms that the applicant is in "substantial compliance" with all regulatory and supervisory requirements. The principle ensures, for example, that consumer protections at both the state and federal levels would still apply.

The fourth and final element is multi-dimensional. The applicant must demonstrate that it is able to comply with all Reserve Bank requirements for a master account. It must be in sound financial condition with adequate capital and the ability to be a going concern under a range of operating and financial scenarios, including during periods of idiosyncratic and market stress, while adhering to the Reserve Bank's requirements. Finally, the applicant must have a rigorous operational risk management framework to ensure its resiliency against potential events associated with its people, processes, or systems related to its use of Reserve Bank payment services.

Principles 3 and 4 provide similar levels of detailed requirements that overlap to a large degree with the Principle 2 requirements, but from the perspective of risk to the payment system and the stability of the U.S. financial system, respectively. Principle 5 focuses on risks relating to money laundering, illicit finance, fraud, cybercrimes, and sanctions evasion, setting out expectations for the applicant's BSA/anti-money laundering and sanctions compliance programs.

Finally, Principle 6 seeks to protect the Federal Reserve's ability to conduct monetary authority. In addition to considering the applicant's soundness and supervisory

condition, the Reserve Bank is tasked with specifically assessing the applicant's impact on the supply and demand of reserves, the level and volatility of short-term interest rates, and the overall size of the consolidated balance sheet of the Reserve Banks.

Additional Conditions and Limitations

Our proposed amendment to the Federal Reserve Act would subject a payment processor to certain conditions and limitations designed to address other concerns associated with direct access to those services. Most importantly, the payment processor – and its affiliates – would be subject to supervision by a Reserve Bank to ensure compliance with the Access Guidelines. Moreover, to address concerns related to the impact of expanded access to Federal Reserve payment services on monetary policy, the proposed amendment includes restrictions that ensure the payment processor uses its master account only to settle payments, and not for earning interest or holding customer funds or stablecoin reserves.

Failure Resolution

Despite the framework of state and federal oversight described above, it is possible that a payment processor with access to Federal Reserve payment systems may fail. State-licensed payment processors are business entities established under state law. As such, the failure of a payment processor would be resolved under bankruptcy laws, rather than by the FDIC resolutions process applicable to an insured depository institution.[56] This difference, however, has not precluded the Reserve Banks granting access requests from uninsured depository institutions that are not subject to FDIC resolution (*e.g.*, ADP Trust Company, an uninsured national trust bank, and Numisma Bank, Connecticut uninsured bank). Moreover, in bankruptcy, there would be no confusion over the location or amount of funds held in a master account, given the record keeping requirements imposed by money transmitter laws and Reserve Bank operating circulars.

Summary

In summary, the banking industry has raised several valid objections to expanding access to Federal Reserve payment systems to nonbanks, including the impact of expanded access on competition, financial stability, risk management and compliance with consumer protections. However, these objections can be addressed by an amendment to the Federal Reserve Act that limits direct access to a payment processor that meets a combination of state and federal prudential and risk management standards.

[56] In bankruptcy, if a consumer or business has funds that are held on the balance sheet of a payment processor, the consumer or small business would be treated as an unsecured creditor and would be entitled to receive a *pari passu* interest in those funds after the resolution of bankruptcy estate. However, if a consumer or small business has a property interest in the funds, such as through a trust, the funds would not be part of the bankruptcy estate.

SECTION IV – A COMPARATIVE ANALYSIS OF NONBANK ACCESS TO CENTRAL BANK PAYMENT SYSTEMS IN OTHER COUNTRIES

In evaluating possible reforms to U.S. payment system access, it is instructive to examine how other major developed jurisdictions have approached direct nonbank access to central bank and other major payment systems. Experience in the United Kingdom ("UK"), European Union ("EU"), and Canada shows that these jurisdictions: (1) are further ahead than the U.S. in opening critical payment rails to nonbanks; (2) have established practical frameworks that address risk, policy, and financial stability concerns; and (3) have realized – or expect to see – meaningful benefits from expanding direct access to nonbank payment processors.

Framework Overview and Implementation

The UK, EU, and Canada have each taken concrete steps to open their central bank payment systems or core payment infrastructure to nonbank payment processors.

The UK has enabled certain authorized payment institutions and e-money institutions to hold settlement accounts at the Bank of England since 2018.[57] Such access previously was limited to banks, building societies, and small categories of other financial firms such as central counterparties. Today, nonbank institutions that meet Bank of England eligibility criteria may apply for a settlement account in the Real-Time Gross Settlement ("RTGS") system,[58] which allows them to become direct participants in core sterling payment schemes (*e.g.*, Faster Payments, BACS, cheque image clearing). The UK's Payment Systems Regulator and the Bank of England have encouraged direct nonbank membership in these major payment schemes to boost competition.[59] As a result, several major nonbanks now operate as direct participants in Faster Payments, settling transactions in central bank money via their own RTGS accounts.

The EU recently joined the UK by taking significant steps to permit payment institutions and e-money institutions to obtain more direct access to the Eurosystem payment infrastructure, including the Trans-European Automated Real-time Gross Settlement Express Transfer system ("TARGET"). Historically, only credit institutions (*i.e.*, banks) and a small set of other authorized financial institutions could join systems such as

---

[57] Bank of England, Bank of England extends direct access to RTGS accounts to non-bank PSPs,, https://www.bankofengland.co.uk/news/2017/july/boe-extends-direct-access-to-rtgs-accounts-to-non-bank-payment-service-providers ("BoE Direct Access Announcement").

[58] Bank of England Settlement Accounts (2021), https://www.bankofengland.co.uk/-/media/boe/files/payments/boesettlementaccounts ("BoE Settlement Accounts Policy").

[59] Bank of England, First non-bank payment service provider (PSP) directly accesses UK payment system (Apr. 18, 2018), https://www.bankofengland.co.uk/news/2018/april/non-bank-psp-access-to-the-payments-system-announcement.

TARGET on a direct basis. However, the 2024 Instant Payment Regulation[60] made payment institutions and e-money institutions eligible as well,[61] initiating a series of implementation steps by the European Central Bank ("ECB") and other Eurosystem institutions.[62] Once implementation steps are complete, individual payment systems will be *required* to allow participation by certain authorized nonbanks.[63] While each payment system or clearing arrangement in the EU can maintain its own membership criteria, it can no longer exclude nonbanks solely because they lack a bank charter.[64]

In Canada, nonbanks are gaining access to Payments Canada[65] membership and Bank of Canada settlement accounts as part of a broader modernization of payment regulation. The Retail Payment Activities Act ("RPAA"),[66] once fully in force, will introduce a federal supervisory framework for a broad array of nonbank payment processors performing retail payment activities. At the same time, amendments to the Canadian Payments Act[67] will permit nonbank payment processors subject to the RPAA to become members of Payments Canada, a prerequisite to settling through core payment systems such as the Automated Clearing Settlement System ("ACSS"), the Lynx RTGS system, and

---

[60] Regulation (EU) 2024/886 amending Regulation (EU) No 260/2012 and Directive 98/26/EC, OJ L 102, 19.3.2024.

[61] Specifically, the Instant Payment Regulation amended the Settlement Finality Directive ("SFD") to add payment institutions and e-money institutions to the categories of entities eligible for direct participation in SFD-designated payment systems. At the same time, it amended the second Payment Services Directive (PSD2) to clarify minimum capital, safeguarding, operational, and risk-management prerequisites for nonbanks seeking to join these high-value or instant payment systems. *See* Directive (EU) 2015/2366 ("PSD2"), Article 35a (conditions for nonbank participation in designated payment systems).

[62] In July 2024, the Eurosystem published a harmonized policy stance explaining how nonbanks could apply for settlement accounts in central bank–operated payment systems. See Eurosystem Policy on Access by Non-Bank PSPs to Central Bank–Operated Payment Systems (July 2024), https://www.ecb.europa.eu/paym/target/target-professional-use-documents-links/tips/shared/pdf/Eurosys_pol_on_access_to_central_bank_operated_payment_systems_by_NBPSPs.pdf ("ECB NB-PSP Access Policy"). Consistent with these policy changes, the European Central Bank issued Decision (EU) 2025/222, stipulating uniform eligibility criteria and access conditions for nonbank payment processors. ECB Decision (EU) 2025/222 of 27 January 2025 on access by nonbank payment processors to Eurosystem central bank–operated payment systems. These series of changes enable qualified payment institutions and e-money institutions to hold settlement accounts in TARGET or other central bank–operated systems (*e.g.,* TIPS for instant payments). See also Guideline (EU) 2022/912 of the European Central Bank (ECB/2022/8), as subsequently amended, setting participation criteria in TARGET.

[63] Regulation (EU) 2024/886, arts. 2–3 (amending SFD).

[64] ECB NB-PSP Access Policy at 3.

[65] The Canadian Payments Association, known as "Payments Canada," is a corporation established by the Canadian Payments Act to operate national payment clearing and settlement systems. See Canadian Payments Act, R.S.C., 1985, c. C-21, s. 4-5.

[66] Retail Payment Activities Act (Canada), S.C. 2021, c. 23 ("RPAA").

[67] Canadian Payments Act, as amended by S.C. 2024, c. 15, s. 219 (*not yet in force*).

the new Real Time Rail ("RTR") platform.[68] Such membership traditionally has been reserved for banks and certain other deposit-taking institutions, effectively excluding nonbanks from holding settlement accounts at the Bank of Canada and forcing them to rely on sponsor banks to clear and settle transactions.[69]

Risk Mitigation

Each of the three jurisdictions has developed frameworks that employ a combination of risk mitigation levers discussed in Section I, namely: (1) restricting access through eligibility requirements and access criteria; (2) reducing exposure through limits on the purpose and use of central bank accounts; and (3) policing participants through regulatory supervision and oversight that enforces compliance with payment system rules and broader financial sector safeguards.

Restricting Access

All three jurisdictions condition eligibility on obtaining specific regulatory licenses that subject the institution to regulatory requirements and ongoing supervision. They also impose specific operational and prudential requirements on eligible applicants as a condition of approving access.

In the UK, the Bank of England limits direct settlement account access to payment institutions and e-money institutions that are duly authorized by the Financial Conduct Authority ("FCA") under the Payment Services Regulations 2017 or the Electronic Money Regulations 2011.[70] This licensing process involves meeting requirements for financial soundness, safeguarding customer funds, and maintaining adequate governance and risk controls, and authorized firms are subject to ongoing FCA supervision.[71] Beyond holding a license, UK nonbank payment processors seeking direct participation must be admitted as

---

[68] Department of Finance Canada, Expanding Membership Eligibility in Payments Canada (2022); Payments Canada, Real Time Rail Payment System Policy, available at https://www.payments.ca/systems-services/payment-systems/real-time-rail-payment-system/policy.

[69] Canadian Payments Act, R.S.C. 1985, c. C-21, s. 4.

[70] BoE Direct Access Announcement. See also The Payment Services Regulations 2017, SI 2017/752 ("PSRs 2017"); The Electronic Money Regulations 2011, SI 2011/99 ("EMRs 2011").

[71] Drawing on several years of experience, the Bank of England is now seeking to refine access requirements as part of its RTGS Renewal Programme. *See* Bank of England, Roadmap for the Real-Time Gross Settlement service beyond 2024, Consultation Response Paper (February 2024), https://www.bankofengland.co.uk/paper/2023/roadmap-for-the-real-time-gross-settlement-service-beyond-2024. These consultations reflect the Bank of England's intention to balance open access for qualified nonbanks with the overarching imperative of safeguarding financial stability and payment system integrity. One of the proposed changes is to require that applicant firms have actively undertaken regulated activities for at least nine months before the FCA starts an assessment to support access to RTGS. Bank of England, reviewing access to RTGS accounts for settlement, Discussion Paper (February 2024) ("Reviewing Access Discussion Paper").

"direct members" of one or more recognized UK payment schemes and satisfy the scheme's operational, anti-money-laundering, and credit risk criteria.[72]

EU authorities likewise require nonbank payment processors to hold a valid payments institutions or e-money institution license before they can seek direct participation in central bank–operated payment systems.[73] To obtain and maintain an authorization, a nonbank must meet minimum capital thresholds, pass "fit and proper" tests, and have robust organizational arrangements. Significantly, the licenses required for eligibility are granted by Member State "competent authorities" under national legislation implementing PSD2 or the E-Money Directive[74] – not by the European Central Bank or another EU authority. National legislation must meet the minimum standards set out in the applicable directive but also may be "gold plated" with additional requirements specific to a given Member State.[75] In addition to national licensing, nonbank payment processors need to obtain membership in the designated payment system by showing compliance with that system's operational, collateral (if applicable), and technical requirements.[76]

Like the UK and EU, Canada is tying eligibility to specific licensing requirements. The RPAA will require nonbank payment processors to register with the Bank of Canada and comply with risk management, fund safeguarding, and other prudential obligations.[77] As in the other jurisdictions, direct access eligibility in Canada will require both licensing under the RPAA and membership in the relevant payment system – in this case, Payments Canada. Once membership eligibility is expanded, Payments Canada's rules will require operational and technical readiness, compliance with anti-money-laundering obligations, and demonstration of financial viability as part of the membership vetting.[78]

---

[72] See Bank of England, Access to UK payment systems for non-bank payment service providers.

[73] Regulation (EU) 2024/886 (Instant Payments Regulation) amending Settlement Finality Directive 98/26/EC; see also ECB Decision (EU) 2025/222 on nonbank payment processors' access to Eurosystem payment systems.

[74] Directive 2009/110/EC on electronic money ("EMD").

[75] This hybrid structure – centralized policy-setting and decentralized implementation – can be especially instructive in the U.S. context, in which nonbank payment service providers are licensed by the states.

[76] ECB Decision (EU) 2025/222 on nonbank payment processors' access to Eurosystem payment systems; ECB Guideline (EU) 2022/912. While updated EU legislation formally allows payments institutions and e-money institutions to become direct system participants, each central bank or system operator can impose "admission criteria" to vet applicants. However, as noted above, national central banks and system operators are prohibited from excluding nonbanks as such from direct participation.

[77] See RPAA, Part 2.

[78] By tying direct participation to this new federal oversight regime, Canada more closely resembles the UK's centralized approach than the EU's hybrid/decentralized system. This approach is dictated by the pre-existing regulatory landscape, in which there is no comprehensive licensing and regulatory regime for payment processors at the provincial level. Only Quebec, British Columbia, and (to a limited extent) Ontario currently impose specific requirements on such nonbank firms.

Beyond identifying which nonbank entities are eligible to apply for central bank payment services, regulators in the UK, EU, and Canada impose specific operational and prudential requirements on applicants. These requirements are designed to ensure that nonbank payment processors can operate reliably and securely in core payment systems. Although the details differ by jurisdiction, nonbanks must:

- Provide information to demonstrate that they satisfy criteria related to operational capacity, security and cyber resilience, and risk and financial fitness;
- Undergo a process of regulatory assessment or attestation; and
- Enter into specified legal agreements.

These access criteria are like those required for banks and other currently eligible institutions in the three jurisdictions, as well as in the United States. Overall, these criteria and conditions provide a framework that allows qualified nonbank payment processors to hold settlement accounts and participate in central bank–operated payment systems, while minimizing risks to financial stability and maintaining safe, efficient payment operations.

Reducing Exposure

All three jurisdictions impose limits on how nonbanks may use their central bank accounts and the extent to which they may avail themselves of central bank–provided credit or deposit services. Generally, these jurisdictions aim to ensure that nonbank participants use central bank accounts solely or primarily for settling payment transactions by imposing limits on the purpose and use of the account.

In the UK, payments institutions and e-money institutions holding Bank of England settlement accounts typically must use those accounts for transactional settlement and core payment flows only. The Bank of England's Settlement Account Policy explicitly bars nonbanks from employing their settlement balances for purposes outside payment services, such as proprietary investments or speculative trading.[79] The Bank of England does not grant participating nonbank payment institutions or e-money institutions access to its Sterling Monetary Framework or intraday liquidity facilities.[80] The Bank of England

---

[79] BoE Settlement Accounts Policy (2017), https://www.bankofengland.co.uk/-/media/boe/files/payments/boesettlementaccounts at 3–5; Bank of England, "Bank of England Extends Direct Access to RTGS Accounts to Non-Bank PSPs" (July 19, 2017), https://www.bankofengland.co.uk/-/media/boe/files/news/2017/july/boe-extends-direct-access-to-rtgs-accounts-to-non-bank-payment-service-providers.pdf. While the UK allows for "client funds settlement accounts" as a designated safeguarding account, these are still within the RTGS framework and are primarily linked to settlement in payment schemes, not a general repository for all customer funds.

[80] Bank of England, *Apply to participate in the Sterling Monetary Framework*, Bank of England Market Operations Guide, https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/information-for-applicants; "Access policy for RTGS settlement accounts and services" (Apr. 2025), https://www.bankofengland.co.uk/payment-and-settlement/access-policy-rtgs-settlement-accounts-

likewise provides no automatic remuneration for payment institutions and e-money institutions holding settlement accounts, and such balances are typically unremunerated.[81]

Similarly, in the EU, the relevant European Central Bank guidelines specify that any balances held in nonbank accounts must be used strictly for executing payment transactions.[82] Moreover, the European Central Bank has prohibited use of the accounts for safeguarding customer funds, though the law allows it, explaining that it "is not a core function of central banks to act as a substitute for credit institutions in providing safeguarding services."[83] Participating nonbanks are ineligible for Eurosystem monetary policy credit operations,[84] and deposits held by nonbank at Eurosystem central banks will generally earn zero or a sub-market rate.[85]

While Canada's framework is still taking shape, it appears on track to take a similar approach. For example, the account access policy for Lynx and ACSS requires applicants to "clearly explain their business need for a settlement account for the given system and confirm that the account will be used solely for settlement of payment activity for that system."[86] Moreover, safeguarding "held" customer funds in the settlement accounts is inconsistent with the relevant Bank of Canada supervisory guideline,[87] which is referenced extensively in RPAA-related regulatory materials.

Policing Participants

Nonbank participants in the UK, EU, and Canada also are subject to ongoing regulatory and supervisory regimes. These regimes generally entail: (1) complying with regulatory and payment system rules designed to ensure prudent operations and

---

services ("As NBPSPs [nonbank payment service providers] do not typically undertake maturity transformation and are ineligible for reserves accounts, NBPSPs are ineligible for intraday liquidity.")

[81] *Id.*

[82] ECB NB-PSP Access Policy (2024).

[83] *Id.* at 6. The ECB went on to explain in depth its reservations about allowing NBPSP safeguarding at central banks, including unfairly competing with other financial institutions, interfering with financial intermediation by crowding out bank deposits, aggravating instability by attracting depositors looking for a safe haven during periods of market uncertainty or volatility, and distorting public perceptions of risk to the point of creating a "synthetic central bank digital currency (CBDC)." See *id.* at 7.

[84] Guideline (EU) 2015/510 of the European Central Bank of 19 December 2014 on the implementation of the Eurosystem monetary policy framework (recast) (ECB/2014/60), art. 55.

[85] Decision (EU) 2024/1209.

[86] Bank of Canada settlement account access policy for Lynx and the Automated Clearing Settlement System, https://www.bankofcanada.ca/core-functions/financial-system/bank-canadas-settlement-account-policies-for-payments-canada-payment-systems/bank-canada-settlement-account-access-policy-lynx-automated-clearing-settlement-system.

[87] See Bank of Canada, *Safeguarding End-User Funds*, https://www.bankofcanada.ca/wp-content/uploads/2024/02/safeguarding-end-user-funds.pdf § 2. The guideline provides detailed instructions on the required methods for nonbanks to safeguard customer funds, which involve either the use of trust accounts or insurance/guarantees held at other prescribed financial institutions.

consumer protection; and (2) undergoing periodic oversight and monitoring by one or more authorities.

While the specific legal foundations and supervisory bodies vary across the three jurisdictions, each employs tiered supervisory approaches to ensure that new entrants do not pose safety or soundness concerns to their payment systems.

In the UK, all nonbank payment processors are authorized persons under either the Payment Services Regulations 2017 or the Electronic Money Regulations 2011. As such, they are subject to FCA supervision and must comply with relevant prudential and conduct requirements applicable to their products and activities.[88] The FCA conducts ongoing supervisory reviews of authorized payment institutions and e-money institutions, examining areas such as capital adequacy, safeguarding of customer funds, and AML compliance.[89] Meanwhile, the Bank of England exercises oversight of systemically important payment systems and has discretion in determining which systems receive settlement services based on financial stability criteria. To directly connect to the RTGS system, nonbanks must meet eligibility requirements including having the operational capacity to participate efficiently in settlement transactions. The FCA conducts supervisory assessments and provides non-objection before certain nonbank institutions are granted settlement accounts by the Bank of England.[90]

The EU's PSD2 and EMD – as implemented by national legislation – subject authorized payment institutions and e-money institutions to safeguarding requirements, "fit and proper" management tests, and operational risk-management obligations.[91] Nonbanks seeking direct access to central bank–operated payment systems also must comply with the relevant system's operating rules, which require adherence to the Settlement Finality Directive.[92] Nonbank payment processors authorized in an EU Member State are supervised by that country's national competent authority under PSD2. With the new ECB decision allowing direct nonbank access to Eurosystem payment infrastructures, participating nonbank payment service providers will be subject to regular monitoring of their account balances, mandatory monthly reporting of their liquidity positions, and penalties for exceeding established holding limits.[93]

Similarly, under Canada's forthcoming RPAA, Canadian nonbank payment processors registering with the Bank of Canada must meet specified operational, financial,

---

[88] PSRs 2017, Part 2; EMRs 2011, Part 3.

[89] FCA, Payment Services and Electronic Money – Our Approach (2022), https://www.fca.org.uk/publication/finalised-guidance/fca-approach-payment-services-electronic-money-2017.pdf.

[90] See BoE Settlement Accounts Policy.

[91] See PSD2 and EMD.

[92] 98/26/EC.

[93] ECB Decision (EU) 2025/222 on non-bank PSPs' access to Eurosystem payment systems.

and consumer protection requirements.[94] Payments Canada systems (*e.g.*, Lynx, Real-Time Rail) also impose participation requirements around settlement, liquidity management, and cybersecurity.[95] The Bank of Canada, newly assigned oversight responsibilities under the RPAA, will monitor registered payment processors for compliance with operational, safety, and end-user fund safeguarding requirements.

Benefits

United Kingdom

In 2017, the Bank of England became the first G7 central bank to offer settlement accounts in its RTGS system to nonbank payment processors.[96] When revising its Settlement Account Policy to expand access, the Bank of England said it was seeking to foster competition, spur innovation, and improve efficiency in UK payment markets. The Bank of England has publicly highlighted the benefits of broader direct participation, including greater choice in payments, more competition, and the potential for more tailored payment services.[97]

The UK's head start in opening central bank payment systems to nonbanks has yielded tangible results. Since then, direct participation in core sterling payment schemes has expanded markedly – for example, Faster Payments' direct members grew from 10 in 2015 to 45 by 2023.[98] New entrants include fintech firms like TransferWise (now Wise), which in 2018 became the first nonbank to directly join Faster Payments under the Bank's new access policy.[99]

By "cutting out the middlemen," TransferWise reported it could offer customers faster and cheaper cross-border transfers after gaining direct access.[100] Other nonbank payment processors have launched novel payment products leveraging direct clearing, enhancing user choice and service speed. Greater competition from nonbanks has in turn pressured incumbent banks to improve their own offerings and pricing, benefiting

---

[94] See Bank of Canada, "Supervisory framework: Supervision," https://www.bankofcanada.ca/core-functions/ retail-payments-supervision/supervisory-framework-supervision/.

[95] See, e.g., Canadian Payments Association By-law No. 3 – Payment Items and Automated Clearing Settlement System, SOR/2003-346; Canadian Payments Association By-law No. 9 – Lynx, SOR/2021-182.

[96] Bank of England, Access to payments infrastructure and balance sheet for payments firms: A call for evidence (Nov. 2019), https://www.bankofengland.co.uk/-/media/boe/files/research/ access-to-bank-of-england-payments-infrastructure-and-balance-sheet-for-payments-firms.pdf ("Call for Evidence").

[97] BoE Direct Access Announcement.

[98] Payment Systems Regulator, Access to payment systems

[99] Bank of England, First non-bank PSP (PSP) directly accesses UK payment system (Apr. 18, 2018) ("BoE TransferWise Announcement").

[100] BoE TransferWise Announcement.

consumers and businesses. Importantly, efficiency has improved as nonbank providers no longer need to route transactions through competitor banks' infrastructures – eliminating duplicative processes and delays.

The Bank of England noted that direct access is already reducing fintechs' operational dependence on traditional banks, streamlining payment chains, and potentially cutting settlement costs.[101] Early evidence thus suggests that opening the payment system has made payments in the UK faster, cheaper, and more user-oriented than under the bank-only model.

Diversifying access has also contributed to a more resilient and inclusive payment ecosystem. The Bank of England has observed that non-bank payment processors' direct access "reduces their operational dependence on the banks" and over time "should create a more diverse payments sector with fewer single points of failure."[102] In practical terms, payment traffic is now less concentrated in a handful of correspondent banks, improving systemic uptime and continuity if one provider faces an outage.

Regulators further cite financial stability gains: as Bank of England Governor Mark Carney explained when announcing the policy, relying on incumbent banks had constrained fintechs' "potential to innovate and competitive impact," so expanding access would enable new players "to compete on a level playing field" and bring a more diverse, inclusive and efficient payments system – in ways not fully foreseeable ex ante.[103] Indeed, UK officials highlight that broader access has fostered innovation and resilience without harming monetary or prudential norms, thanks to strong safeguards (*e.g.,* requiring nonbanks to meet equivalent technical and risk standards as banks).[104]

The policy has also improved policy responsiveness and infrastructure modernization. The UK's Payment Systems Regulator and Bank of England worked in tandem to adjust access criteria as technology evolved, demonstrating agile regulatory oversight that encouraged private-sector innovation.[105] These reforms were part of a broader modernization agenda – including the ongoing RTGS Renewal Programme – aimed

---

[101] Bank of England, "Reviewing access to RTGS accounts for settlement," Discussion Paper (February 2024), https://www.bankofengland.co.uk/paper/2024/dp/reviewing-access-to-rtgs-accounts-for-settlement.
[102] FCA and PRA, "Written evidence on IT failures in the financial services sector," OPR0012 (Sep. 2019), https://committees.parliament.uk/writtenevidence/99804/html/.
[103] Mark Carney, "Enabling the FinTech transformation - revolution, restoration, or reformation?," Speech at the Lord Mayor's Banquet for Bankers and Merchants of the City of London, Mansion House, London (Jun 16, 2016), https://www.bis.org/review/r160621e.htm.
[104] Bank of England, "Response to the discussion paper on reviewing access to RTGS accounts for settlement" (Apr. 8, 2025), https://www.bankofengland.co.uk/paper/2024/dp/response-reviewing-access-to-rtgs-accounts-for-settlement.
[105] Fintechs Canada, UK real-time payments: lessons learned for Canada (Jul 30, 2020), https://fintechscanada.ca/resources/uk-real-time-payments-lessons-learned-for-canada/.

at upgrading the national payments infrastructure for greater resilience, openness, and interoperability.[106]

In short, the UK's experience shows that carefully managed nonbank access can increase competition and innovation in payments, improve efficiency and user outcomes, and strengthen the overall robustness of the payments system, all while laying a foundation for continued modernization.

European Union

In the EU, direct access for nonbank payment providers is a very recent development, so benefits are largely prospective. The Instant Payments Regulation's cited a policy objective of fostering competition, spurring payment innovation, and facilitating instant payments.[107] Thus far, the policy shift has been well received by fintech firms and e-money institutions eager to eliminate reliance on sponsor banks for settlement of euro-denominated payments. While empirical results will only materialize after nonbank access begins in 2025, EU authorities expect that broader access will enhance efficiency and foster competition and innovation in the European payments landscape.[108]

Canada

Although Canada's RTR is not yet live, authorities anticipate significant benefits based on comparative experience and stakeholder analysis. The Bank of Canada has emphasized that "broadening participation in infrastructure like the RTR will support a more competitive and innovative payments ecosystem."[109] By enabling nonbanks to plug into core clearing, the RTR is expected to spur the emergence of new payment solutions and providers, from fintech remittance apps to innovative merchant payment platforms.

Canadian policymakers also foresee broader access yielding ancillary public benefits. Financial inclusion stands to gain as Canadians get more choices in payment providers and methods. The Bank of Canada's goal is to give Canadians "greater choice among different methods of payment – with confidence in their safety,"[110] and nonbank

---

[106] Victoria Cleland, A new dawn for payments, Speech at City Week 2021 (Jun. 21, 2021), https://www.bankofengland.co.uk/speech/2021/june/victoria-cleland-keynote-address-at-the-city-week-2021-a-new-dawn-for-payments.

[107] Regulation (EU) 2024/886, recitals 1-2

[108] NB-PSP Press Release.

[109] Bank of Canada, "Laying bare the evolution of payments in Canada," Remarks by Ron Morrow, Executive Director of Payments, Supervision and Oversight (May 22, 2024), https://www.bankofcanada.ca/2024/05/laying-bare-evolution-payments-canada/.

[110] Interview with Timothy Lane, Deputy Governor, Bank of Canada, in Central 1 Credit Union, "Payments Modernization: Bank of Canada Advises Financial Institutions Be Ready for Increased Competition from 'Technology Driven Challengers'" (Apr. 1, 2022), https://www.central1.com/blog_posts/payments-modernization-bank-of-canada/.

participation contributes by offering alternatives to those who may not be fully served by traditional banks or who prefer fintech interfaces.

Summary

In summary, other developed countries have recognized the need to modernize their payment systems by expanding access to nonbank payment processors. In doing so, they have adopted regulatory and supervisory frameworks that are designed to achieve the benefits of expanded competition without jeopardizing the integrity of their payment systems. Those frameworks include licensing requirements, compliance with prudential standards, risk management standards, and anti-money laundering rules. The frameworks adopted in these jurisdictions have informed the drafting of the amendment to the Federal Reserve Act proposed in this paper to enable nonbank payment processors access to Federal Reserve payment systems.

SECTION V – PATHWAYS FOR PAYMENT PROCESSORS TO GAIN ACCESS TO FEDERAL RESERVE PAYMENT SYSTEMS

In this section, we discuss some of the alternative pathways payment processors may gain direct access to Federal Reserve payment systems based upon current law. To take advantage of these options, however, payment processors must undertake challenging organizational and operational changes. Thus, this section also discusses two options for direct access that are contingent upon changes in federal law: a federal payment charter, and an amendment to the Federal Reserve Act to authorize state-licensed payment processors direct access. While we see significant merit in a federal payments charter, we recommend the amendment to the Federal Reserve Act as an initial step to achieve the benefits associated with expanded access that are described in Section II.

Gaining Direct Access to Federal Reserve Payment Systems Under Existing Law

Commercial Bank or Thrift

A payment processor may gain direct access to Federal Reserve payment systems by establishing or acquiring a national or state-chartered bank or thrift.[111] Some nonbanks have done this in connection with their lending business.[112] For example, Lending Club acquired Radius Bank, which now operates as Lending Club Bank,[113] and SoFi acquired

[111] We do not include the establishment or acquisition of credit unions as an option because credit unions are owned by their members, not other entities.
[112] Non-bank payment companies have also acquired commercial banks, albeit less recently. For example, Green Dot Bank, acquired in 2011, has access to a master account and services.
[113] OCC Conditional Approval #1258 (Dec. 30, 2020).

Golden Pacific Bank, which it now operates as SoFi Bank.[114] Both Lending Club Bank and Sofi Bank have been granted access to a Reserve Bank master account and services.[115]

Acquiring an insured commercial bank or thrift, however, has its costs. In each of the cases described above, the OCC imposed certain operating conditions on the institutions. The Lending Club was required to inject $250 million in capital into the bank. Sofi was required to commit not to engage in any crypto-asset activities or services, unless it had received prior written non-objection by the OCC. Moreover, the parent of an insured commercial bank or thrift must be approved as a bank holding company by the Board and may engage only in financial activities, not general commercial activities, such as manufacturing and retail sales.[116] These conditions and limitations can make this pathway to Federal Reserve payment systems unattractive.

National Trust Bank

The national trust bank charter has proven to be a useful vehicle for certain payment business models. One payroll processor, ADP, has established a national trust bank and gained access to Federal Reserve payment systems.[117] Another, Paycom Software Inc., has received approval from the OCC to form a national trust bank and has a request pending for access to Federal Reserve payment systems.[118]

However, the payments activities of national trust banks are limited. A national trust bank may only engage in fiduciary and related activities. Permissible fiduciary activities include trust and estate administration, retirement plan service, investment management and advisory activities, and corporate trust administration. Permissible related activities include custody and safekeeping, security-holder services, financial planning, and cash management.[119]

Thus, national trust banks have proven to be a means for payment processors to gain access to Federal Reserve payment systems, but (so far) only if they are focused on traditional payroll processing activities or traditional fiduciary businesses like custody.

---

[114] OCC Conditional Approval #1277 (Jan. 18, 2022).

[115] Master Account Database, https://www.federalreserve.gov/paymentsystems/master-account-and-services-database-existing-access.htm.

[116] See below for a discussion of industrial banks, a type of insured depository institution that does not require its parent company to become a bank holding company.

[117] See Final Approval of Application to Charter ADP Trust Company, OCC Conditional Approval #1227 September 2019, Application to Charter Paycom National Trust Bank, OCC Conditional Approval #1317, March 2024.

[118] OCC Conditional Approval #1317, March 2024. Other payroll processors that have received or applied for national trust bank charters include Dayforce (opened in 2023) and OneSource Virtual (applied in 2025).

[119] OCC Bulletin 1007-21, June 26, 2007.

Some digital asset custodians have received approval to open a national trust bank but have not succeeded in gaining direct access to Federal Reserve payment systems.[120]

This track record is about to be tested by a wave of national trust bank applications filed in mid-2025.[121] Notably, one applicant is Wise plc, the first nonbank payment service provider to be granted a Bank of England settlement account. The other applications contemplate digital asset-focused business models. The direct access prospects of this newest wave applicants are too early to assess as of this writing.

Uninsured, Special Purpose State Banks

Some states have authorized charters for uninsured, special purpose banks that may apply for access to Federal Reserve payment systems because they technically are "eligible" to apply for deposit insurance coverage, even though they have no plans to do so.[122] Connecticut, Georgia, Wyoming, and Nebraska are among the states that adopted such laws.

Connecticut has authorized charters for "innovation" banks that may engage in lending and investment activities and accept uninsured wholesale deposits (but not FDIC-insured deposits.)[123] Georgia has authorized charters for "merchant acquirer limited purpose banks" ("MALPBs") to process payment card transactions for merchants but not accept demand deposits or make commercial loans.[124]

In the digital assets space, Wyoming has authorized charters for "special purpose depository institutions" ("SPDIs") that may provide cryptocurrency custody services, accept deposits, but not make loans with customer's deposits.[125] Nebraska followed Wyoming's lead with the "digital asset depository institution" ("DADI") charter that

---

[120] Protego Trust Company received OCC approval in February 2021 to convert a Washington state trust company to a national trust bank, and in April 2021, the OCC issued a preliminary conditional approval for Paxos, a cryptocurrency firm, to charter a national trust bank and serve as a custodian of digital assets. The conditional approvals for Protego and Paxos expired before those trust banks became operational. See OCC Weekly Bulletin for Period 03/05/2023 - 3/11/2023 (Protego) and OCC Weekly Bulletin for Period 03/05/2023 - 3/11/2023 (Paxos). Paxos withdrew a request for a Reserve Bank master account on January 26, 2024. According to the Federal Reserve Board's master account database, Protego Trust Co. NA still has an application pending for a Reserve Bank master account.

[121] Six national trust bank charter or conversion applications – Wise National Trust (Wise); National Digital Trust Company (Protego); Fidelity Digital Asset Srvcs, LLC (Fidelity Investments); First National Digital Currency Bank, N.A. (Circle); Ripple National Trust Bank (Ripple), and Bitgo Trust Company, Inc. (Bitgo) – were filed between May 28 and July 14, 2025.

[122] As noted in Section I, an institution is treated as a "depository institution" entitled to direct access for Reserve Bank payment services as long as it is "eligible" to apply for deposit insurance.

[123] Conn. Code § 36a-70t.

[124] GA Code § 7-9-1, et seq.

[125] Wyo. Stat. § 13-12-101, et seq.

permits custody of digital currencies, facilitation of crypto payments, stablecoin issuance and management, and other digital asset services.[126]

To date, however, only one uninsured, special purpose bank, Numisma Bank, a Connecticut chartered uninsured bank, has been able to gain access to Federal Reserve payment systems. Numisma has a very narrow business model, which involves supplying banknotes, including U.S. dollars, Euros, and other currencies to central banks, commercial banks, and nonbank financial institutions. Other recent requests for access to Federal Reserve payment systems by uninsured, special purpose state banks have been denied, including a request filed by TNB USA, Inc. ("TNB"), a Connecticut uninsured bank (denied by the Federal Reserve Bank of New York), and Custodia, a Wyoming state-chartered special purpose bank (denied by the Federal Reserve Bank of Kansas City).[127] Several other uninsured, special purpose banks have access requests that are currently pending or previously withdrawn.[128] The withdrawal of some requests and the denials of others indicate that uninsured, special purpose state banks with novel business models face challenges in gaining access to Federal Reserve payment systems.

Finally, we note that Fiserv and Stripe have received MALPB charters from Georgia. Based upon press reports, the motivating factor for these applications is direct access to the Visa and Mastercard processing systems, rather than processing credit and debit card transactions through a bank partner.[129] Nonetheless, with a MALPB charter, Fiserv and Stripe could apply to a Reserve Bank for access to Federal Reserve payment systems, subject to review under Tier 3 of the Access Guidelines.

Industrial Banks

Industrial banks are state-chartered, FDIC-insured banks that may offer a full range of consumer and commercial loans but may not accept demand deposits (checking accounts).[130] They are supervised by their chartering state and the FDIC, and they are treated as Tier 1 institutions under the Board's Access Guidelines. Moreover, the parent company of an industrial bank is not subject to the restrictions on activities imposed by the

---

[126] Neb. Rev. Stat. § 8-3001, et seq.

[127] See the discussion of risks to financial stability and monetary policy in section III, above, for additional information on these requests.

[128] Wyoming SPDIs with pending or withdrawn applications include Kraken Bank (pending since 2020), Commercium Financial (refiled in 2025 after being withdrawn the previous year), and BankWyse (withdrawn in 2024). Telcoin, Inc., approved as the first Nebraska DADI in February 2025, is not yet listed as having submitted an access request..

[129] PYMNTS, *Will Fiserv and Stripe Pave Path for More Special Bank Charters?*, PYMNTS.COM (Apr. 8, 2025), https://www.pymnts.com/news/payments-innovation/2025/will-fiserv-and-stripe-pave-path-for-more-special-bank-charters/.

[130] An industrial bank may offer NOW accounts to customers, which are a functional equivalent of a checking account from a customer's perspective. A NOW account gives an industrial bank the right to require at least 7 days' notice prior to the withdrawal of a deposit. In practice, an industrial bank may waive this right.

Bank Holding Company Act because industrial banks are not treated as "banks" under that Act.

Yet, acquiring or forming an industrial bank has not been a fruitful pathway to access to Federal Reserve payment systems. Since 2020, the FDIC has approved deposit insurance coverage for only two industrial banks, one owned by Square (now Block) and the other by Nelnet.[131] Thus, the impediment to Federal Reserve payment systems for an industrial bank is not the Board's Access Guidelines but obtaining FDIC insurance coverage.

Summary

In summary, a national trust bank charter is a realistic path to obtaining direct access to Federal Reserve payment systems for a payment processor engaged in traditional payroll processing activities. Establishing a national trust bank requires the approval of just one federal agency, the OCC, and does not cause a parent company to be treated as a bank holding company if the national trust bank does not accept insured deposits.

An uninsured, special purpose state bank charter and an industrial bank charter also may be attractive options, but that depends on other developments. The industrial bank option hinges on the FDIC's willingness to extend deposit insurance coverage to a new industrial bank. The attractiveness of the uninsured, special purpose bank charter depends on whether companies, such as Fiserv and Stripe, can access Federal Reserve payment systems as Tier 3 depository institutions under the Access Guidelines, based upon their Georgia MALPB charters.

Direct Access to Federal Reserve Payment Systems Based Upon Changes in Federal Law

Given the limitations and conditions associated with paths available under existing law, changes to existing laws may provide a better pathway for direct access to Federal Reserve payment systems. Below, we discuss two such options: (1) the enactment of a law authorizing payments firms to be chartered by the federal government and have access to Federal Reserve Bank payment systems (a "federal payment charter"); and (2) the enactment of an amendment to the Federal Reserve Act to permit payment processors to apply for direct access for Federal Reserve payment systems. Of these two options, we recommend the amendment to the Federal Reserve Act as the next step in expanding direct access to payment processors.

Federal Payment Charter

Currently, state money transmission laws and regulations provide the legal and supervisory framework for the transmission of funds for businesses and consumers by

[131] *See* FDIC Order Approving Application for Deposit Insurance for Square Financial Services, Inc., March 17, 2020, and FDIC Order Approving Application for Deposit Insurance for Nelnet Bank, March 17, 2020.

nonbank payment processors. A federal payment charter would offer an alternative framework. It is reasonable to assume that legislation to establish a federal payments charter would make federally chartered payments companies eligible to apply for a Federal Reserve master account, either a new type of eligible entity or as "depository institutions" evaluated under the Access Guidelines.

The concept of a federal payment charter has been the subject to some debate since 2018, when the OCC announced that, based upon existing law, it would accept applications to charter "special purpose national banks" that could engage in payments and lending activities but could not accept FDIC insured deposits.[132] That initiative was abandoned following legal challenges filed by state banking authorities, and it is now generally assumed that the establishment of a federal payment charter requires action by Congress.

The concept of a federal payment charter has since gained support from policymakers, academics, and industry groups. For example:

- The Treasury Department has formally recommended the establishment of a "federal framework for payments regulation to protect users and the financial system, while supporting responsible innovations in payments."[133]
- In Beyond Banks: Technology, Regulation and the Future of Money, Dan Awrey, a professor of law at Cornell Law School, has proposed a dedicated federal payments charter;[134]
- Former Chairman of the Commodities Futures Trading Commission, Christopher Giancarlo, Daniel Gorfine, and Brian Peters, have stated that "A well-crafted [federal payment charter], created by Congress, would address conflicts and ensure consistency with other state and federal laws, provide direct access to the Fed payments system, and facilitate a chartered entity's membership in private payments networks;[135] and
- Penny Lee, the CEO of the Financial Technology Association, a trade group for the fintech industry, has stated that "The time to create an optional non-bank federal payments charter is now."[136]

---

[132] Office of the Comptroller of the Currency, "OCC Begins Accepting National Bank Charter Applications from Financial Technology Companies," press release (July 31, 2018), https://www.occ.gov/news-issuances/news-releases/2018/nr-occ-2018-74.html. The OCC also issued a supplement to its licensing manual for this purpose. See, "Comptroller's Licensing Manual Supplement: Considering Charter Applications from Financial Technology Companies" (July 2018).

[133] Department of Treasury, The Future of Money and Payments Report Pursuant to Section 4(b) of Executive Order 14067 (September 2022), https://home.treasury.gov/system/files/136/Future-of-Money-and-Payments.pdf at 47.

[134] Awrey.

[135] Milken Institute Paper.

[136] FTA Submission.

Legislation establishing a federal payment charter (and, with it, a new federal payments regulatory regime) would be substantial – on par with the stablecoin legislation pending as of this writing. In crafting a federal payment charter, Congress would need to address several key questions, including: (1) what federal agency should be responsible for chartering and supervising the firms; (2) whether the firms could engage in activities other than payments (e.g., lending); and (3) whether the firms could be affiliated with other financial or nonfinancial firms.

Resolving these questions is likely to take some time. Accordingly, we have developed another option that complements, but does not replace, the creation of a federal payments charter. To be clear, we see substantial merit to a federal payment charter, but pending the realization of such a charter, we believe an amendment to the Federal Reserve Act that permits state-licensed payment processors to apply for access to Federal Reserve payment systems is an appropriate step to provide faster and less expensive payment services for small businesses and consumers.

In the end, the two efforts are complimentary, not duplicative. If a federal payments charter is created, a direct access option for state-licensed state companies would be necessary to ensure the survival of dual federal and state systems in payments, consistent with the typical architecture of U.S. financial regulation. Without such an option, a federal payments charter would create a system where federally licensed payments firms could get direct access, while state licensed firms could not, damaging or perhaps even collapsing the current state payments regulatory system.

Direct Access to Federal Reserve Payment Systems for Payment Processors

The Federal Reserve Act currently limits direct access to Reserve Bank payment services to "depository institutions." We propose that Congress amend the Federal Reserve Act to permit state licensed payment processors to apply to a Reserve Bank for direct access to Federal Reserve payment systems. Appendix A is a draft bill that would add a new Section 11D in the Federal Reserve Act for this purpose.

The draft bill does not guarantee access to the Federal Reserve payment systems for payment processors.[137] It establishes a process for payment processors to apply for direct access to those systems and be granted access only if they meet certain conditions and limitations. The conditions and limitations are designed to address the risks associated with expanding access to Federal Reserve payment systems and to ensure that payment processors do not have an unfair competitive advantage over existing participants in the payments system.

[137] The draft bill does not address access to credit card processing systems. It is focused exclusively on access to the Reserve Bank payment services.

To apply for direct access to Federal Reserve payment systems a payment processor must meet be: (1) organized under state law; (2) engaged in the facilitation of electronic funds transfers for businesses and consumers; (3) licensed as a money transmitter by a state that has adopted key elements of the MTMA; and (4) comply with federal anti-money laundering requirements and federal customer privacy standards. Requiring a payment processor to be licensed by a state that has adopted key elements of the MTMA ensures that the payment processor is subject to minimum prudential standards, including capital and liquidity requirements. State-licensed money transmitters are already subject to federal anti-money laundering and customer privacy requirements, but we have included those provisions for the avoidance of any doubt.

Once an application is deemed to be substantially complete, the draft bill requires a Reserve Bank to act on an application within 120 days, and if the Reserve Bank does not do so, the application is deemed approved. This provision is designed to address the fact that the Reserve Banks have withheld action on applications from some institutions for prolonged periods of time (*e.g.,* TNB).

In reviewing an application, the Reserve Bank would be required to accept the views and recommendations of any state supervisory authority for the payment processor. [138] A payment processor would have an opportunity to respond to any submission made by a state authority.

A Reserve Bank would decide on an application by a payment processor based upon the payment processor's compliance with the risk management standards in the Access Guidelines. In other words, payment processors would be subject to the same standards for access that apply to all other applicants. Under the Access Guidelines, a payment processor would be treated as a Tier 3 institution because it is not federally insured and is not subject to prudential supervision by a federal banking agency. However, as discussed below, if granted access to Federal Reserve payment systems, a payment processor and its affiliates would be subject to oversight by a Reserve Bank. A Reserve Bank would be required to take this level of federal oversight into consideration when acting on an access request from a payment processor.

Payment processors granted access to Federal Reserve payment systems also would be subject to limitations on the use of funds held at a Reserve Bank. A payment processor would be prohibited from using the account for any purpose other than transferring and settling payments in "national currency," which is defined as a Federal Reserve note, money issued by the central bank of another country, and money issued by an

[138] This provision is based upon a recommendation by the CSBS to the Board when the Board was developing the Access Guidelines. Letter to Ann Misback, Secretary, Board of Governors, Federal Reserve System, from James M. Cooper (January 17, 2023), https://www.csbs.org/account-and-service-requests.

intergovernmental organization (*i.e.,* the EU).[139] The draft bill also would prohibit a payment processor from earning interest on funds held in a master account. These limitations are designed to overcome concerns that have arisen in the context of access requests by some uninsured, special-purpose state banks.

A payment processor that is granted access to Federal Reserve payment systems also would be subject to oversight by a Reserve Bank. A Reserve Bank would have the authority to examine the financial condition and the risk management systems of the payment processor as well as its compliance with applicable Board regulations, operating circulars, and the conditions and limitations imposed by the draft bill. A Reserve Bank also would have the authority to examine each affiliate of the payment processor. A Reserve Bank's ability to examine affiliates of a payment processor would be based upon the power of the federal banking agencies to examine service providers to banks. Those examinations focus primarily on the security of IT systems and operations.

Furthermore, a Reserve Bank would be authorized to bring an enforcement action against a payment processor based upon the processor's: (1) unsafe or unsound financial condition; (2) lack of systems to control operational risks; or (3) failure to comply with applicable operating circulars, Board regulations, and the limitations on the use of master accounts noted above. Enforcement actions against an affiliate of a payment process could be brought if the affiliate posed a material risk to the on-going operations of the payment processor.

Summary

In summary, the draft bill seeks to establish a framework that enables state-licensed payment processors access to Federal Reserve payment systems and thereby produce the public benefits that are described in Section II. The framework is based upon a combination of state licensing and prudential supervision plus federal oversight. As a result, the framework does not diminish the value of state supervision, nor does it give state licensed payment processors any unfair comparative advantage over existing participants in the payment system.

The combination of prudential standards, conditions, and limitations that would be imposed on a payment processor that has access to Federal Reserve payment systems is designed to ensure that payment processors with access to Federal Reserve payment

[139] Payments in stablecoins and other cryptocurrencies do not settle through central bank settlement accounts such as a Federal Reserve master account. Stablecoin issuers and other digital asset firms that are licensed money transmitters would be permitted to apply for direct access for the purpose of settling "on-ramp" and "off-ramp" transfers of U.S. dollars, subject to the same Federal Reserve approval standards as other applicants. However, the use-purpose restriction would prevent such firms from holding reserves at a Federal Reserve Bank, just as it would for non-crypto firms.

systems have comprehensive, enterprise-wide risk management systems in place to manage any conceivable risk or illicit activity.

SECTION VI – CONCLUSION

Congress has expanded direct access to Federal Reserve payment systems on two prior occasions. First, in 1980, in response to competitive pressures from the savings and loan industry and the Justice Department, Congress expanded access from just commercial banks that were members of the Federal Reserve System to all depository institutions. Second, following the financial crisis of 2008-2009, Congress gave large clearing and settlement firms, FMUs, access to Federal Reserve payment systems to permit more timely processing of large dollar payments and to reduce the potential for disruptions in the settlement of those payments.

Based upon recent developments in payments, it is time for Congress to, once again, extend direct access to another category of institutions. Extending direct access to Federal Reserve payment systems to nonbank payment processors would make payments more secure by reducing the extra links in the payment chain and would lower costs and facilitate faster payments through competition and innovation.

The benefits of extending direct access to Federal Reserve payment systems to nonbank payment processors may be achieved without creating new risks for the payment system or giving nonbank payment processors an unfair competitive advantage over existing participants in the system. Through an amendment to the Federal Reserve Act, Congress can ensure the integrity of the nation's payment systems by requiring nonbank payment processors with direct access to Federal Reserve payment systems to meet a combination of state and federal prudential and risk management standards and be subject to supervision by a Reserve Bank. Such an amendment would also help to maintain the nation's prominent role in global financial markets.

APPENDIX A

A BILL

To authorize nonbank payment processors access to a Federal Reserve master account and Federal Reserve services.

Be it enacted by the Senate and the House of Representatives of the United States assembled,

Section 1. Short Title.

This Act may be cited as the "Access to Master Account and Services Act of 2025."

Section. 2. Master Account and Services for Payment Processors

(a) Reserve Bank Master Account and Services for Payment Processors. – The Federal Reserve Act is amended by inserting after Section 11C of the Federal Reserve Act (12 U.S.C. 248c) the following section –

"Sec. 11D. Reserve Bank Master Account and Services for Payment Processors.

"(a) Account Access.

(1) Reserve Bank Authority. – A reserve bank may accept deposits from, and provide reserve bank master account and services to, a payment processor that satisfies the requirements of this section.

(2) Account Limitations. – A payment processor that is granted access to a reserve bank master account and services pursuant to this section may not:

(A) Use the account or services for any purpose other than transferring and settling payments in national currency; or

(B) Receive earnings on balances in the account pursuant to Section 19(b)(12).

"(b) Request. – A payment processor may submit an access request to the reserve bank for the district in which the payment processor is located.

"(c) Procedure. –

"(1) Information. – An access request submitted pursuant to subsection (b) shall include information specified by the reserve bank that enables the reserve bank to evaluate the request under the account access guidelines established by the Board.

"(2) Notice to State Authority. – Upon receiving an access request, a reserve bank shall forward a copy of the request to any State supervisory authority for the payment processor and shall allow thirty days within which the views and recommendations of such State authority may be submitted to the reserve bank and the payment processor. A payment processor may submit additional information to the reserve bank in response to the views and recommendations of the State authority within ten days of the receipt of such views and recommendations.

"(3) Evaluation and Determination. – Upon receipt of a substantially complete access request, a reserve bank shall evaluate, and make a determination on, the request based upon the account access guidelines, taking into consideration the following factors:

"(A) the supervisory authority the reserve bank would have over the payment processor and any affiliate of the payment processor pursuant to this section;

"(B) the account limitations required by subsection (a)(2); and

"(C) the views and recommendations of a state authority and any response by a payment processor submitted to the reserve bank pursuant to paragraph (2) of this subsection.

"(4) Timing. – A reserve bank shall make a determination on an access request within 90 days of the receipt of a substantially complete access request, unless the reserve bank extends the evaluation of the request for an additional 30 days by notifying the payment processor. For purposes of this paragraph, an access request shall be considered substantially complete if the request contains sufficient information for the reserve bank to make a determination based upon the account access guidelines issued by the Board.

"(d) Conditions. – If a reserve bank approves an access request, it may impose conditions on the use of the account or services as necessary to address operational, credit, legal, or other risks posed to the reserve bank and its payment services or to address other considerations in the account access guidelines issued by the Board.

"(e) Grounds for Denial. – A reserve bank may deny an access request if the reserve bank, in consultation with the Board, determines that the payment processor does not satisfy the account access guidelines.

"(f) Written Explanation of Denial and Judicial Review. – A reserve bank shall provide a payment processor with a written explanation of the grounds for the denial of an access request. A payment processor that is subject to a denial may obtain review by the United States court of appeals for the circuit in which the home office of the payment process is located or the United States Court of Appeals for the District of Columbia Circuit, by filing a notice of appeal in such court within ten days from the date of such notice, and simultaneously sending a copy of such notice by registered or certified mail to the reserve bank. The reserve bank shall promptly certify and file in such court the record upon which the denial was based. The findings of the reserve bank shall be set aside if found to be arbitrary or capricious or if found to violate procedures established by this section.

"(g) Failure to Make a Determination. – If a reserve bank fails to make a determination on a complete access request within the time period specified in subsection (c)(4), the access request shall be deemed approved.

"(h) Monitoring, Examinations, and Enforcement. –

"(1) Monitoring of Payment Processor – A reserve bank, on an ongoing basis, shall monitor and analyze the financial condition and systems for controlling financial and operational risks of a payment processor that has access to a reserve bank master account and services.

"(2) Examination of Payment Processor. – A reserve bank may conduct an examination of a payment processor that has access to a reserve bank master account and services to assess –

"(A) the financial condition and systems for controlling financial and operational risks of the payment processor; and

"(B) the payment processor's compliance with applicable Board regulations, operating circulars, account agreements, any conditions imposed pursuant to subsection (d), and the limitations imposed by subsection (a)(2).

"(3) Examination of Affiliates. – A reserve bank may conduct an examination of each affiliate of a payment processor in the same manner and to the same extent as if the affiliate was a bank service company and the reserve bank was the appropriate Federal banking agency under section 1 of the Bank Service Company Act (12 U.S.C. 1861).

"(4) Enforcement. – The Board may initiate an enforcement action against the payment processor pursuant to the authorities in subsections (b) through (n) of Section 8 of the Federal Deposit Insurance Corporation Act (12

U.S.C. 1818) in the same manner and to the same extent as if the payment processor was a depository institution and the board was the appropriate Federal banking agency for such institution if, based upon monitoring or examination, the reserve bank finds that –

"(A) the payment processor –

"(i) is in an unsafe or unsound financial condition;

"(ii) lacks systems for controlling financial and operational risks; or

"(iii) is not in compliance with applicable Board regulations, operating circulars, account agreements, conditions imposed pursuant to subsection (d), or the limitations imposed by subsection (a)(2); or

"(B) an affiliate of the payment processor poses a material risk to the on-going operations of the payment processor.

"(i) Definitions. – For purposes of this section –

"(1) Section 11C terms. – The terms "access request" and "reserve bank master account and services" have the meaning given in section 11C(a)(2) of this Act.

"(2) Account access guidelines – The term "account access guidelines" means the account access guidelines established by the Board pursuant to section 11(j) of this Act (12 U.S.C. 248(j)).

"(3) Payment processor. – The term "payment processor" means a company or similar entity organized under state law, other than a depository institution, that:

"(A) provides commercial payment services in the United States;

"(B) is a financial institution that is subject to:

"(i) the requirements of subchapter II of chapter 53 of title 31; and

"(ii) standards established pursuant to section 501(b) of the Gramm-Leach-Bliley Act (15 U.S.C. 6801); and

"(C) is licensed as a money transmitter by one or more States that has enacted:

"(i) the provisions of the Conference of State Bank Supervisors' model Money Transmission Modernization Act concerning supervision, reporting and records, and prudential standards; or

"(ii) substantially similar law, as determined by the Board, following consultation with the Conference of State Bank Supervisors.

"(4) Commercial payment services. – The term "commercial payment services" means facilitating electronic funds transfers among businesses or between a business and its customers or employees.

"(5) The term "national currency" means a Federal Reserve note, money issued by the central bank of another country, and money issued by an intergovernmental organization pursuant to an agreement by one or more governments."