

Issue Update

The Federal Reserve Banks operate payment services, which serve as a backbone of payment system stability, instill confidence in economic transactions, and facilitate the nation's commerce. Congress has enacted laws that seek to ensure the integrity of the payment system by providing for the supervision of banks as payment intermediaries and of banks' affiliates as users of bank payment services that present unique risks. Payments companies that are not insured depositories are attempting to obtain direct access to the Federal Reserve Banks' payment services. With direct access, these organizations would introduce risk to the payments system because they are not subject to the full federal supervision and regulation that generally apply to insured depository institutions.

Of note, several states have developed special purpose depository charters, and the OCC is receiving applications from nontraditional entities for national trust bank charters. In many cases, the entities pursuing these charters are interested in obtaining master accounts and direct access to the Federal Reserve Banks' payment systems. The Board of Governors recognized the risks associated with these novel charters and implemented a uniform policy for Federal Reserve Banks to evaluate entities seeking direct access to the payment system. Recently, Governor Waller proposed offering a payments account, or "skinny" master account, to certain eligible institutions. Such an account could offer access to the Federal Reserve Banks' payments systems but not discount window access, reserves on deposits, or daylight overdraft. At this time, the Federal Reserve has not put out a formal proposal for comment, and it is unclear how a payments account would be implemented.

Why It Matters

A safe and efficient payment system permits consumers, businesses, and banks to make payments with the confidence that those transactions are conducted with financially responsible intermediaries that comply with applicable legal requirements, including anti-money laundering and sanctions requirements.

Entities chartered via special purpose charters at the state level or as national trust banks at the OCC are typically not subject to consolidated supervision, do not have FDIC oversight, do not fit the definition of "bank" under the Bank Holding Company Act, and may create new opportunities for fraud or money laundering. Limiting direct access to Federal Reserve Bank payment services to qualified depository institutions subject to full federal supervision and regulation is critical to preserve the integrity of the payment system.

Recommended Action Items

The Board and Federal Reserve Banks should protect consumers, financial institutions, and the payment system itself by:

Protecting the Payments System

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- Establishing a coordinated, cross Reserve System evaluation committee, with Board input, to review all payment access applications to eliminate the potential for bias across Reserve Banks;
- Requiring that, at a minimum, applicants meet the prudential standards required of federally insured or supervised financial institutions; and
- Mandating ongoing Federal Reserve reviews of entities not subject to federal supervision to ensure they are meeting regulatory expectations.