BANK POLICY INSTITUTE

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"Future of Payments: Promoting Innovation and Fair Markets"

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Chairman Hill, Ranking Member Waters, and Honorable Members of the Committee, thank you for the opportunity to testify today. I am Paige Pidano Paridon, Executive Vice President and Senior Associate General Counsel at the Bank Policy Institute. BPI is a nonpartisan policy, research, and advocacy organization representing the nation's leading banks, including universal banks, regional banks and major foreign banks doing business in the United States. Our members are deeply committed to supporting responsible innovation in payments and financial services, and we are grateful for the Committee's attention to the important questions this hearing presents.

Innovation Within the Regulatory Perimeter

Thanks to decades of innovation and investment by the regulated banking sector, American consumers have a wealth of options when it comes to paying one another or a business. Credit cards provide consumers with the ability to pay merchants anywhere in the world, and at a 0% interest rate if the balance is repaid monthly; fraud protection; and travel, cash back and other rewards.[1] ACH transfers,[2] and debit card transactions[3] continue to attract significant consumer usage. Businesses can use traditional payment methods, including wire and ACH, both of which are offered by the Federal Reserve and by private sector providers.

The United States payments ecosystem is resilient because of the wide and diverse range of payment options available to consumers and businesses that can be substituted for one another.

[1] Consumer, small business, and commercial credit card purchase volume for the top 100 issuers in the United States totaled $5.995 trillion in 2025, an increase of approximately 11.1% from 2023. *See* Nilson Report "US Card Spending at Merchants — 2025," Issue 1308, at 5 (May 2026), https://nilsonreport.com/wp-content/uploads/NilsonReport_1308_2E26.pdf.

[2] The modern ACH Network experienced significant growth in 2025. "In 2025, Same Day ACH payment volume reached 1.4 billion payments for the year, valued at $3.9 trillion. From 2024 to 2025, Same Day ACH volume grew 16.7%, while the value of those payments increased 21.4%. Overall, ACH Network payment volume rose nearly 4.9% from 2024 to 35.2 billion payments in 2025, climbing to an average 141 million daily transactions. The value of those payments reached $93 trillion, a 7.9% increase compared to 2024." *See* https://www.nacha.org/content/ach-network-volume-and-value-statistics.

[3] Consumer, small business, and commercial debit card purchase volume for the top 100 issuers in the United States totaled approximately $3 trillion in 2025, an increase of approximately 5.2% from 2023. *See* Nilson Report "US Card Spending at Merchants — 2025," Issue 1308, at 5 (May 2026), https://nilsonreport.com/wp-content/uploads/NilsonReport_1308_2E26.pdf.

Bank innovation benefits consumers and businesses

Technological innovation in the payments ecosystem has further increased the speed of payments, clearing and settlement, providing even greater benefits to consumers and businesses. While fintechs and other nonbanks have engaged in payment innovation, significant innovation also is occurring within the banking sector. Banks are using new technologies to provide consumers and businesses with innovative products and services, consistent with the banks' safe and sound operation. For example, Zelle, a bank-owned, peer-to-peer payments service offered by participating banks and credit unions, allows consumers to send and receive funds directly from their FDIC-insured bank accounts, and funds are available almost immediately.[4]

Real-time payments and faster settlement and funds availability can provide customers with immediate access to funds from cash advances, loan proceeds, or in emergency situations.[5] Faster payments also allow consumers to better manage their finances and cash flows, as funds are available immediately, and consumers can obtain an accurate, up-to-date account summary immediately after sending a payment, which enables them to avoid problems that can arise from lags between payment authorization and final settlement. In addition, since payments are not restricted to normal business hours, consumers can make payments up until the last minute they are due and thereby avoid late fees. Faster payments allow small businesses to send funds to other businesses, vendors, or other counterparties, as well as to pay employees, with immediate funds availability and without limitation as to when those payments can be sent. For example, for businesses, the RTP network operated by The Clearing House has brought instant, 24/7 payment capabilities to millions of Americans and businesses.[6]

Banks are increasingly using blockchain technology to increase the speed of payments. Payment stablecoins and tokenized deposits are the primary means of executing payments using distributed ledger technology.

Banks have primarily focused on developing deposit tokens and tokenized asset platforms to enable instant commercial payments. Just a few examples include Kinexys by J.P. Morgan, which offers JPM Coin, a deposit token issued on Base, the Layer 2 Ethereum network, that enables customers to "move money, post collateral and settle transactions on public blockchains;"[7] HSBC's Tokenized Deposit Service allows businesses to manage and move funds across participating HSBC locations in real-time, 24/7 by converting deposits into digital tokens (1:1, or one token for every dollar), enabling instant wallet-to-wallet transfers," designed "for businesses with international treasury needs . . . making real-time treasury a reality;"[8] and Citi offers Token Services for Cash, allowing payments to be processed using blockchain and funds to be transferred "cross-border in near real time to Citi account holders in participating markets."[9]

Tokenized deposits enable banks to offer atomic settlement of transactions, which allows both legs of a transaction to settle simultaneously, avoiding the delay between delivery and payment and the risk that

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[4] "What is Zelle?", https://www.zelle.com/faq/what-zelle

[5] For example, customers can quickly gain access to payments from an insurance company to cover initial expenses arising from a home fire, auto accident or other disaster anytime, regardless of the time of day or whether it is a weekend or holiday.

[6] Since 2017, the RTP network has processed over $1.4 trillion instantly. *See* https://www.theclearinghouse.org/payment-systems/rtp.

[7] JPM Coin is "backed by the safety and security of J.P. Morgan" and "carries the credit risk profile and balance sheet certainty of commercial bank money, while benefiting from existing regulatory deposit frameworks. It unifies payment, settlement and reconciliation into a single on-chain action, with the ability to move between cash and token through the Blockchain Deposit Account (BDA) framework." https://www.jpmorgan.com/kinexys/jpm-coin.

[8] https://www.business.hsbc.com/en-gb/products/tokenised-deposit-service.

[9] https://www.citigroup.com/global/businesses/services/services-digital-assets.

one side of the transaction fails. Furthermore, banks are developing networks to allow for interoperability of tokenized deposits. For example, The Clearing House is planning to launch a tokenized deposit network next year.[10] Fnality is developing Fnality Payment Systems in major currencies that would enable banks to provide real-time, 24/7, DLT-based wholesale settlement of digital cash, fully backed by funds held at a central bank.[11]

Banks provide innovative solutions safely and responsibly

All of this banking innovation has occurred within the regulatory perimeter—subject to capital requirements, liquidity standards, and robust BSA/AML controls. When a bank deploys a new payment product, its customers know that the bank meets capital standards and has access to the discount window under liquidity or market stress, and that there is an orderly resolution framework and deposit insurance if something goes wrong.

Currently the greatest risk to payments—within and outside of the regulatory perimeter—is cybersecurity. Banks are often targeted by hostile nation-state cyber actors and criminal organizations seeking to disrupt the financial system and overall functioning of the U.S. economy. Banks invest significant time and resources to shore up their own defenses and to support sector-wide security and resilience initiatives. The formation of organizations like the Financial Services Sector Coordinating Council and the Financial Services Information Sharing and Analysis Center by banks exemplifies this commitment. The FSSCC helps coordinate on cybersecurity and incident response with regulators and key government partners, and the FS-ISAC facilitates the sharing of threat and vulnerability information and best practices among its 5,000 members in 70 different countries. These organizations, among others, are led by banks and have helped protect the financial system and demonstrate banks' capabilities to adapt and mitigate dynamic threats. Banks abide by numerous data security privacy protection standards, including:

- The Gramm-Leach-Bliley Act;
- FFIEC IT Examination Handbook;
- The Fair Credit Reporting Act;
- The Right to Financial Privacy Act; and
- State and International Data Security and Privacy Laws.[12]

By contrast, many fintechs and other nonbanks do not make the same level of investment in cybersecurity and are not necessarily subject to the same requirements but nonetheless may be targeted by the same nation-state cyber actors and criminal organizations.

Banks support innovation and welcome competition in financial products and services, so long as the innovation is conducted responsibly, consumers are protected, and all entities operating in the ecosystem are subject to prudential requirements designed to ensure their safety and soundness, such as capital requirements (including operational risk capital), deposit insurance and discount window access. Competition should be based on the products and services offered rather than on the ability to evade regulation and supervision.[13]

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[10] https://www.wsj.com/finance/banking/jpmorgan-citi-and-big-banks-plan-new-tokenized-deposit-system-to-answer-crypto-6b2d696b.
[11] https://fnality.com/how-it-works.
[12] https://bpi.com/cybersecurity/.
[13] Banks are constantly adopting new technology to improve the way in which they serve and protect their customers and engage in their businesses. In addition to technological advancement to better serve customers, banks also are continuously working to advance financial

Novel Charters

Congress has articulated a clear view that the benefits of being a full-service bank come with corresponding regulatory obligations. Banks have the right to accept deposits, make loans and process payments. Banks can also access the federal safety net of FDIC insurance and the Federal Reserve discount window. In exchange for these authorities, banks must operate prudently and comply with stringent regulations, such as capital and liquidity requirements, activity restrictions and consumer protection standards. Banks are subject to regular examinations, and their parent companies are subject to consolidated supervision by the Federal Reserve and activities restrictions designed to mitigate risks created by the mixing of banking and commerce. Banks also meet the credit needs of their communities, including low- and moderate-income neighborhoods, consistent with the Community Reinvestment Act.[14]

Novel charters seek bank-like benefits without corresponding obligations

In recent years, digital asset firms, fintechs and other nonbanks have sought limited-purpose bank charters, both at the state and federal levels, ostensibly to engage in a limited suite of activities. These charters differ in scope and oversight, yet some of these entities appear to be seeking limited-purpose charters even though they may intend to engage in traditional banking activities, such as taking uninsured deposits, issuing deposit-like liabilities, or providing payments services, without being subject to the full suite of prudential safeguards that apply to full-service traditional banks.[15]

These special "novel" bank charters authorize recipients to do certain banking activities, while being subject to just a fraction of the regulatory and supervisory framework that would apply to an ordinary bank. These "novel" charters therefore circumvent a regulatory framework that has been carefully crafted by Congress and agencies over the past 100+ years to ensure the U.S. banking system continues to be safe and sound, remains resilient to shock and functions to support American consumers and the real economy.

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inclusion. Indeed, low-cost banking accounts are proliferating. Bank On is a national program with the goal of ensuring that everyone has access to a safe and affordable bank or credit union account. It comprises local partnerships of city, state, and federal government agencies, financial institutions and nonprofit organizations, which are joined nationally under the leadership of the Cities for Financial Empowerment Fund. *See* BankOn: https://joinbankon.org/about/. The account standards include a minimum opening deposit of $25 or less, and no or low ($5 or less) monthly maintenance fee. These accounts do not permit penalty fees for overdrafts, non-sufficient funds, low balances or account dormancy. Accounts may allow for negative balances, but customers cannot be charged fees if this occurs. These efforts have been highly successful in bringing consumers into the banking system. A record low number of households in the U.S. are unbanked, according to the most recent Federal Deposit Insurance Corporation's National Survey of Unbanked and Underbanked Households. "Federal Deposit Insurance Corporation (FDIC), 2023 FDIC National Survey of Unbanked and Underbanked Households (November 2024), at 1, https://www.fdic.gov/household-survey/2023-fdic-national-survey-unbanked-and-underbanked-households-report. The number of unbanked households has steadily decreased. Between "2011—when the unbanked rate was at its highest level since the survey began in 2009—and 2023, the unbanked rate fell by almost half, corresponding to an additional 5.3 million banked households in 2023." *Id*. The FDIC survey found that 5.6 million households were unbanked and 128 million households were banked as of 2023. *Id.* This is the eighth biennial survey, which began in 2009. The FDIC solicited survey responses in 2025, but those results have not yet been published. *See* 2025 FDIC Annual Report, at 32, https://www.fdic.gov/financial-reports/2025-annual-report.pdf (In June 2025, the FDIC conducted its National Survey of Unbanked and Underbanked Households, which continues to provide authoritative data on U.S. household participation in the banking system. Survey results will be reported in 2026") citation omitted.

[14] 12 U.S.C. § 2901 *et seq*.

[15] For example, Wyoming has chartered special purpose depository institutions ("SPDIs"), which are fully-reserved banks that "receive deposits and conduct other activity incidental to the business of banking, including custody, asset servicing, fiduciary asset management, and related activities." They are not required to obtain insurance from the Federal Deposit Insurance Corporation. *See* https://wyomingbankingdivision.wyo.gov/banks-and-trust-companies/special-purpose-depository-institutions.

The OCC has approved novel uninsured trust charters

At the federal level, the Office of the Comptroller of the Currency has recently granted several national trust bank charters to digital asset companies that may intend to engage in activities beyond the scope of activities authorized by Congress for those entities. National trust banks are categorically distinct from commercial banks—national trust banks generally do not accept demand deposits and therefore do not have FDIC insurance, nor do they generally make commercial loans. Rather, they are authorized to, and have historically engaged in, limited trust activities. They are not subject to the full range of capital, liquidity, and prudential requirements applicable to commercial banks precisely because they are not performing those functions, nor are they subject to obligations under the Community Reinvestment Act or to the activity restrictions in the Bank Holding Company Act that prohibit the mixing of banking and commerce.

Further, the OCC's traditional trust bank supervisory framework has been developed around institutions that manage traditional assets and receive fees for those services. Digital assets present a categorically different risk profile. Their price volatility is extreme and has, on multiple occasions, proven systemically destabilizing. The failures of Silvergate Bank and Signature Bank demonstrated how dangerous concentration in crypto-related liabilities can be when digital asset markets deteriorate rapidly. The near-collapse of a major dollar-pegged stablecoin during the failure of Silicon Valley Bank showed how stablecoin reserve arrangements can create acute run risk that migrates into the banking system itself—and that only emergency federal intervention prevented broader contagion.

We have urged the OCC to ensure that its national trust chartering decisions are consistent with its statutory authority, that the prudential and supervisory framework for such entities appropriately addresses the novel risks involved, and that there is full public transparency throughout the process.

Congress should close the ILC loophole

Industrial Banks and Industrial Loan Companies offer banking products and services functionally indistinguishable from those that other banks provide. However, the parents of ILCs are exempt from the requirements of the Bank Holding Company Act.[16] Therefore, they can avoid regulation and supervision by the Board of Governors of the Federal Reserve System and need not confine their activities to those "closely related to banking."[17] Thus, the ILC exemption effectively serves as a loophole through which commercial firms can own insured banks but not be subject to the federally mandated regulatory and supervisory framework intended to promote a safe, sound and stable U.S. banking system. The loophole also violates the longstanding U.S. policy that banking and commerce should remain separate. Therefore, as we have long advocated, Congress should close this loophole.

The risks of combining banking and non-financial businesses are a longstanding concern of US public policy. For example, the Bank Holding Company Act limits the affiliation of banks and non-financial businesses by generally prohibiting bank holding companies from owning more than five percent of the voting stock of non-financial companies, with limited exceptions.[18] This prohibition addresses several potential problems, including:

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[16] 12 U.S.C. § 1841(c)(2)(H) ("The term "bank" does not include […] [a]n industrial loan company, industrial bank, or other similar institution[.]")
[17] 12 U.S.C. § 1843(k)(4)(F). BPI has long recognized that parents of ILCs that are subject to consolidated supervision by the Federal Reserve do not pose additional risks to the system and need not be included in any limitation on ILC parent companies. These include both bank holding companies and foreign banking organizations with operations in the United States that are already regulated as bank holding companies under the International Banking Act.
[18] 12 U.S.C. § 1843(a)(2) and (c)(6).

- A concentration of economic power;
- Less stringent credit standards for and higher risk exposures to affiliates;
- Less attractive credit terms to unaffiliated non-financial businesses; and
- Other similar conflicts of interest.

Moreover, under the BHCA, the activities of affiliates of a bank are subject to "consolidated supervision" by the Federal Reserve.

Furthermore, the ILC exemption was not intended to provide an avenue for commercial, retail, or tech firms to enter into banking. The ILC industry has changed dramatically since 1987 when this statutory exemption was created as part of the Competitive Equality in Banking Act ("CEBA"). At that time, the size, nature, and powers of ILCs were limited.[19]

Today, however, the loophole allows large national and international financial and commercial firms to acquire an ILC, which is an FDIC-insured depository institution, and gain access to the federal safety net available to insured depository institutions. Indeed, dramatic changes have occurred with ILCs that make them a particularly attractive avenue for firms to gain access to the federal safety net *without* being subject to the activity restrictions and prudential framework that Congress established for the corporate owners of other full-service commercial banks. Commercial firms are subject to market and other incentives that are distinct from, and may conflict with, serving as a source of financial strength for a subsidiary bank.

In the absence of Congressional action, we have urged the FDIC to cease granting deposit insurance to ILCs, and, at a minimum, to take further steps to mitigate the most significant risks posed by ILC arrangements, including their ability to mix banking and commerce and the lack of consolidated supervision of ILC organizations.

Federal Reserve Accounts

Some entities seeking novel charters are doing so to obtain a Federal Reserve master account and access to the Federal Reserve's payment services. They have argued that they need Federal Reserve accounts to run their businesses more efficiently and at a lower cost. Access to Reserve Bank accounts enables eligible institutions to clear and settle transactions on behalf of their customers on the central bank's balance sheet without concern about liquidity and credit risk.

But central bank account access can also pose considerable risk to individual Reserve Banks, to the U.S. payments system and its participants and to financial stability, and can have implications for the role of the Federal Reserve in the financial system. To mitigate this risk, the Federal Reserve has, since the origin of the Federal Reserve System, generally expected account holders to be subject to a comprehensive and rigorous regulatory and risk management framework. For this fundamental reason,

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[19] ILCs were first established in the early 1900s to make small loans to industrial workers and, until recently, were not generally permitted to accept deposits or obtain deposit insurance. At the time of CEBA's enactment, most ILCs were small, locally owned institutions that had only limited deposit-taking and lending powers under state law. At the end of 1987, the largest ILC had assets of only approximately $410 million, and the average asset size of all ILCs was less than $45 million. The relevant states also were not actively chartering new ILCs. At the time CEBA was enacted, for example, Utah had only 11 state-chartered ILCs, and had a moratorium on the chartering of new ILCs. Moreover, interstate banking restrictions and technological limitations made it difficult for institutions chartered in a grandfathered state to operate a retail banking business regionally or nationally.

the standards governing account access must continue to be transparent, rigorous, and consistently applied across Reserve Banks.

The Federal Reserve Board has established Guidelines for granting access to Federal Reserve accounts and services, which recognize that certain types of eligible institutions—such as uninsured depository institutions that are not subject to federal supervision at both the institution and, if it exists, the holding company level—have not traditionally had access to Reserve Bank accounts or services and may present different levels of risk.[20] For example, such an institution may present heightened (i) credit risk to the Reserve Bank if it overdraws its account; (ii) settlement risk to counterparties and customers if it is unable to process transactions due to operational failures; (iii) financial stability risk if the institution uses its account to draw deposits away from commercial banks, which would increase the cost of credit and impair financial intermediation; and (iv) BSA/AML risk if the institution uses its account to process transactions that support illicit activity.[21]

While certain entities with novel charters argue that they should have direct Federal Reserve Account access, what is sometimes lost in this debate is that institutions that do not have direct access to a master account are not foreclosed from using services provided by Reserve Banks. Rather, these institutions are eligible to use services indirectly through a traditional correspondent banking relationship with a correspondent that has a master account. This well-established, frequently used structure is consistent with the Federal Reserve's Guidelines in that it helps ensure that risks that certain institutions may pose to the Reserve Banks and the accounts and services they offer are mitigated by the additional layer of risk management policies, procedures, and controls in place at the correspondent bank.

Some entities with novel charters argue that other central banks have opened their payment systems to nonbanks and that this has reduced the costs and increased the speed and efficiency of those payment systems. First, the United States payment system is highly efficient, resilient, and secure. Second, each country's payment system reflects the specific policy imperatives of the individual country and operates within its own unique legal and regulatory framework. For example, the Bank of England offers "settlement accounts," which are unremunerated accounts used for payments by bank and nonbank participants, subject to various limits, including a limit on overnight balances that, if breached, results in fines for the account holder.[22] However, the UK Financial Conduct Authority is required to (i) authorize non-bank payment service providers to ensure they meet rigorous conduct and consumer protection standards before gaining eligibility for Bank of England settlement accounts and (ii) supervise these institutions for ongoing compliance with these standards.[23] The Federal Reserve does not currently supervise many institutions with Master Account access—such as national banks and state-chartered banks that are not members of the Federal Reserve System—nor does the Federal Reserve currently propose that it would supervise any Payment Account holder, as described further below.[24]

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[20] *See* Guidelines for Evaluating Account and Services Requests, 87 Fed. Reg. 51099 (Aug. 19, 2022).
[21] *Id*.
[22] Bank of England, *Access policy for RTGS settlement accounts and services* (April 2, 2025), https://www.bankofengland.co.uk/payment-and-settlement/access-policy-rtgs-settlement-accounts-services.
[23] *Id*.
[24] *See* Notice and Request for Comment on Proposed Revisions to the Federal Reserve Policy on Payment System Risk and the Guidelines for Account and Services Requests, 91 Fed. Reg. 30627 (May 26, 2026); Notice of Proposed Rulemaking on Regulation D: Reserve Requirements of Depository Institutions, 91 Fed. Reg. 30503 (May 26, 2026); Notice of Proposed Rulemaking on Regulation A: Extensions of Credit by Federal Reserve Banks, 91 Fed. Reg. 30498 (May 26, 2026).

The Federal Reserve should proceed cautiously in establishing Payment Accounts

In recognition of the rapid speed of innovation in the payment space and requests by entities with novel charters for Federal Reserve Master Accounts, the Federal Reserve has recently proposed to establish a "Payment Account"—a special-purpose Federal Reserve account intended to serve institutions focused primarily on payment innovation that the Federal Reserve acknowledges are largely uninsured depository institutions.[25] The Board has appropriately sought public input as it considers whether and how the central bank infrastructure can accommodate new types of eligible institutions. The Federal Reserve has proposed that the Payment Account would include features that would reduce the risks presented by Payment Account holders to the Federal Reserve System and other payment system participants. For example, Payment Accounts would have closing balance limits, would not receive interest, and would only be able to access payment services for which the Reserve Banks can automatically reject transactions that would cause an overdraft, which would include Fedwire Funds Service and FedNow Service, but not FedACH.

Should the Federal Reserve ultimately establish Payment Accounts, we support these limitations as they would help ensure that the Federal Reserve's payment services remain safe, secure, and resilient. For example, access to FedACH would create unacceptable levels of risk to the Reserve Banks and the overall payment system. Unlike the Fedwire Funds Service and the FedNow Service in which settlement of funds transfers is final and irrevocable, ACH items and checks are subject to long return windows.[26] Therefore, there is not a "reasonable way to allow Payment Accounts to access FedACH and effectively mitigate credit risk to the Reserve Banks without disrupting the ACH network and potentially undermining its efficiency and effectiveness."[27]

In addition, complex payment systems like the FedACH Service require participating depository financial institutions to have sufficient sophistication and expertise to manage the clearing and settlement of a high volume of ACH items, both credit and debit (unlike the credit-push-only functionality of the Fedwire Funds Service and FedNow Service). Allowing entities that are not subject to federal prudential supervision to access this payment service and settle ACH activity in its own Reserve Bank account would significantly increase the risk to other participants, especially if the Reserve Bank refuses to handle a validly returned item due to its own credit risk.

Even with the proposed limitations on Payment Accounts, the proposal itself represents a fundamental shift in Federal Reserve policy. Historically, access to Reserve Bank master accounts has been conditioned on federal deposit insurance and the comprehensive regulatory framework that accompanies it. That approach was not arbitrary. The creation of federal deposit insurance in 1933 was the signature policy response to the near-collapse of the banking system, when nearly 9,000 institutions failed as a result of bank runs. Federal deposit insurance, together with robust capital requirements, ongoing supervision, and orderly resolution authority, forms an integrated framework designed to protect depositors, preserve confidence, and prevent systemic instability.

The Payment Account would provide a more streamlined path to Federal Reserve account access for institutions that are uninsured and, in many cases, not subject to meaningful federal prudential

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[25] *Id*.
[26] Although FedCash services would not present the same credit risk, access to those services would not be appropriate for Payment Account holders because cash heightens the risk of BSA and AML violations, as cash is easier to use for illicit purposes since it is less traceable than electronic payments.
[27] 91 Fed. Reg. at 30631 (citation omitted).

oversight. We are concerned that this shift could accelerate deposit migration to uninsured institutions and introduce new vectors of systemic risk into the payments system.

For these reasons, it is critically important that the Federal Reserve take a methodical, risk-based approach to considering whether to grant Payment Account access to institutions that are not federally insured and not otherwise subject to federal prudential oversight. Although the Payment Account would come with limitations, the Payment Account proposal has the potential to greatly expand access to Reserve Bank payment services by uninsured institutions, representing a significant departure from longstanding Federal Reserve practice. As contemplated by the Fed, many, if not most or all, Payment Account holders will be uninsured institutions not subject to federal prudential supervision; they may be entities with which the Federal Reserve and other federal regulators have no or only limited experience, and some legally eligible institutions may plan to operate within a regulatory and supervisory regime that is itself still emerging and legally untested (e.g., the regulatory regime governing stablecoin issuers under the GENIUS Act that has not yet been implemented; indeed, several of the required rulemakings have not even been proposed). Moreover, uninsured institutions are more susceptible to runs, especially during times of stress,[28] and many of these institutions have not experienced a full business cycle. Further, as discussed below, these institutions present heightened BSA/AML and sanctions risk to the payment system, and the proposed Payment Account safeguards with respect to these issues do not go nearly far enough to mitigate these risks.

We oppose the PACE Act for similar reasons. First, the Federal Reserve is already moving in the direction of expanding access for legally eligible institutions by introducing Payment Accounts. Statutory change is not necessary. Second, the PACE Act would create undue risk to the payment system by allowing money transmitters—which are not subject to prudential requirements, risk management standards, or supervision—direct access to the Federal Reserve including FedACH, which, as described previously, requires participating depository financial institutions to have sufficient sophistication and expertise to manage the clearing and settlement of a high volume of ACH items. And third, the PACE Act would circumvent the state laws designed to protect consumers relying on these entities to transmit their money. The Act would allow a money transmitter with 40 state money transmitter licenses to obtain an OCC "license," become subject to GENIUS Act-like requirements, and thereby provide money transmission services nationwide. The result would not only be enormous legal complexity and inability for certain or all state regulators to enforce their own laws, but also harmful gaps in consumer protection standards and unprecedented opportunities for regulatory arbitrage.

Entities with Novel Charters must be subject to robust BSA/AML and operational risk requirements and federal oversight

The proposed risk mitigants would primarily address credit risk to Reserve Banks, but these accounts present at least the same level of BSA/AML risk, operational, cybersecurity and other risks as full Master Accounts. It is critically important that risk controls addressing those and other risks identified in the Guidelines be established and consistently applied across Reserve Banks to Payment Accounts. For example, without effective BSA/AML risk management, Payment Account holders could introduce BSA/AML risk to other participants in the payment system, which also could undermine confidence in the safety and security of the payment system as a whole.

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[28] *See, e.g.,* NAT'L COMM'N ON THE CAUSES OF THE FIN. & ECON. CRISIS IN THE U.S., THE FINANCIAL CRISIS INQUIRY REPORT 356–360 (Jan. 2011), https://www.govinfo.gov/content/pkg/GPO-FCIC/pdf/GPO-FCIC.pdf (finding that a run on uninsured prime money market funds helped cause the Global Financial Crisis).

The Board should establish strict controls and oversight for Payment Accounts obtained by uninsured institutions to mitigate BSA/AML and economic sanctions risk[29] such as defining minimum standards and monitoring expectations, including but not limited to customer due diligence, transaction monitoring, and reporting of suspicious activities obligations.[30] As noted above, the Reserve Banks historically have generally relied on IDIs and other federally regulated institutions to serve as correspondents for such entities, with the entities then obtaining payment services from the federally regulated correspondents. These correspondents therefore interpose a layer of risk management on which the Reserve Banks could rely, as the entities with accounts serving as correspondents are themselves subject to robust regulation and supervision, including with respect to BSA/AML risk. Correspondent banks conduct due diligence and transaction monitoring for financial institutions for which they provide these services.

Because of the national imperatives of an effective, consistent BSA/AML and sanctions program, we believe that Payment Account holders should be either subject to examination and enforcement by a federal banking supervisor for these matters—or, absent such a supervisor, continued monitoring and assessments by the Reserve Banks, which could refer any findings to the institution's federal or state regulator for investigation and enforcement (e.g., the IRS and state banking agency, as well as the Financial Crimes Enforcement Network and OFAC).

To address other risks presented by a Payment Account, Payment Account holders should be required to have robust enterprise and operational risk management programs, including with respect to third-party risk, operational resilience, and new product approvals; and to implement strong cybersecurity, information security and data protection measures, including with respect to identity and access management, IT resilience, network security, and cloud security.

The Competitive Level Playing Field

The banking industry has invested billions of dollars in meeting their customers' demands for innovative, safe, and efficient services. They have built expansive compliance infrastructures, robust risk management frameworks and invested in cutting-edge technology to deliver these products and services safely and securely and consistent with the highest consumer protection standards. They maintain

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[29] Indeed, as outlined in the Guidelines, Reserve Banks should confirm that Payment Account applicants have a BSA/AML compliance program consisting of the components set out below and in relevant regulations. These components include the following: (i) a system of internal controls, including policies and procedures, to ensure ongoing BSA/AML compliance; (ii) independent audit and testing of BSA/AML compliance to be conducted by bank personnel or an outside party; (iii) designation of one or more individuals responsible for coordinating and monitoring day-to-day compliance (i.e., a BSA compliance officer); (iv) ongoing training for appropriate personnel, tailored to each individual's specific responsibilities; and (v) appropriate risk-based procedures for conducting ongoing customer due diligence, including procedures to understand the nature and purpose of customer relationships for the purpose of developing a customer risk profile and conducting ongoing monitoring to identify and report suspicious transactions and, on a risk basis, to maintain and update customer information. In addition, the Guidelines provide that the Reserve Bank should confirm that the institution has a compliance program designed to support its compliance with the Office of Foreign Assets Control ("OFAC") regulations and that an OFAC compliance program should identify higher-risk areas, provide for appropriate internal controls for screening and reporting, establish independent testing for compliance, designate a bank employee or employees as responsible for OFAC compliance, and create a training program for appropriate personnel in all relevant areas of the institution. The Reserve Banks should impose similarly rigorous standards and requirements for cyber risk management by Payment Account holders. A serious cybersecurity incident at a Payment Account holder could impair payment system participants and the Federal Reserve itself, with enormous consequences for financial stability and the U.S. economy.

[30] With respect to eligible institutions that will seek to become permitted payment stablecoin issuers under the GENIUS Act, the U.S. Department of the Treasury and the federal banking agencies have various rulewriting obligations, including with respect to BSA/AML and sanctions compliance requirements. The finalization of such rules will take time, and, consistent with our recommendation that entities demonstrate at least a year of successful safe and sound operation before being permitted to apply for a Payment Account, the entity's safe and sound operation must include compliance with BSA/AML and sanctions requirements. Therefore, these entities should not be understood to be eligible to apply for Payment Accounts until at least one year after commencing operation under the regulatory framework that is required to be established under the GENIUS Act.

capital buffers against stress. They fund the deposit insurance system. They are subject to rigorous examination by the OCC, the Federal Reserve, and the FDIC. They comply with comprehensive Bank Secrecy Act and anti-money laundering obligations and lend to and invest in their communities, including low- and moderate-income neighborhoods, consistent with the CRA. They are subject to resolution planning requirements that protect the broader system in the event of their failure.

Institutions seeking novel charters—whether national trust banks, special-purpose charters, or other uninsured entities—seek access to the Federal Reserve payment infrastructure and the implicit imprimatur of federal oversight without accepting the full scope of those obligations. If they succeed, the result will be a two-tiered system: institutions with light regulatory burdens competing against institutions with heavy ones, all with access to the same central bank infrastructure. That is not a formula for innovation. It is a formula for regulatory arbitrage—and for the gradual erosion of the safety and soundness standards that protect the American public.

Conclusion

The United States has the most innovative, deepest, and most resilient banking system in the world. That did not happen by accident. It is the product of a carefully constructed framework of federal oversight, deposit insurance, prudential supervision, and central bank infrastructure—a framework that BPI's member banks have built and operate within every day.

Innovation should strengthen that framework, not circumvent it. The rules governing novel charters and Federal Reserve account access should reflect that principle. Thank you, and I look forward to your questions.