

Regulatory Alert

Regulatory Insights for Financial Services

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FinTechs, Innovation, and Federal Reserve Bank “Payment Accounts”

KPMG Regulatory Insights

- **Eligibility:** While the Executive Order and FRB proposals have similar themes, they do not directly correlate. The Executive Order asks FRB to consider whether Reserve Bank accounts and services may be extended to non-bank financial companies, which are not currently eligible institutions; the current FRB proposals add account options for only currently eligible institutions. Potential impacts from both could expand the scope and access to FRB’s payment system but for two different audiences.
- **New Limited Option:** The FRB proposed special-purpose payment account is expected to offer a more streamlined review process compared to the traditional Master Account though Tier 2 and Tier 3 institutions must still anticipate a 90-day (or more) review period.
- **Strategic Opportunity:** Fintechs, stablecoin issuers, and developers of innovative payment models have opportunity to inform the final rule and potentially the FRB’s report on non-bank financial company access to Reserve Bank accounts/services.

The Administration recently [issued](#) Executive Order 14405, entitled “Integrating Financial Technology Innovation into Regulatory Frameworks.” The Executive Order lays out the Administration’s policy to “streamline regulatory processes, reduce unnecessary barriers to entry, and encourage collaboration between fintech firms, federally regulated financial institutions, and federal financial regulators.” To that end, the Executive Order has two primary directives:

- Streamline regulatory processes - Identify existing regulations, guidance, supervisory practices, and application processes across the federal financial regulators that might be updated to enhance fintech access to financial services (e.g., through partnerships, charters, products, and services).
- Expand access to Federal Reserve services - Evaluate, report, and establish procedures for uninsured depository institutions and non-bank financial companies to access Federal Reserve Bank payment accounts and payment services.

Following the Executive Order, the Federal Reserve Board (FRB) [issued](#) three proposals that together would facilitate the offering of a new special-purpose payment account (Payment Account) to clear and settle payment activity. The proposals include revisions to:

- I. The Policy on Payment System Risk and Account Access Guidelines
- II. Regulation A (Extensions of Credit by Federal Reserve Banks)
- III. Regulation D (Reserve Requirements of Depository Institutions)

The agency states the proposals are intended to support private-sector innovation in payments and are primarily directed toward non-federally insured depository institutions interested in direct access to Reserve Bank accounts and services.

Comments will be accepted through July 27, 2026.

Executive Order: Integrating Financial Technology Innovation into Regulatory Framework

For purposes of the Executive Order, the following definitions apply:

- “Fintech firm” – would mean a non-bank company that uses or develops technological means to offer or support the offering of financial products or services, including any application or technology that facilitates access to, management of, or data processing for financial products or services. Such financial products or services may include payment processing, lending, deposit-taking, derivatives, investment management, brokerage services, underwriting
- “Federal financial regulators” – would mean the Commodity Futures Trading Commission, Consumer Financial Protection Bureau, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, and the Securities and Exchange Commission as well as the Federal Reserve Board.

Streamline Regulatory Processes – Each federal financial regulator is required to take the following actions:

Action Required	Timeframe
<ul style="list-style-type: none"> — Conduct a review of existing regulations, guidance, supervisory practices, and application processes to identify those that could be updated to facilitate innovation and competition to financial products and services for fintech firms, including materials that may unduly impede fintech firms from entering into partnerships with federally regulated institutions (e.g., credit unions, investment advisers, and futures commission merchants). — Identify items that could be amended to streamline application processes for eligible fintech firms seeking bank charters, credit union charters, deposit or share insurance, and other Federal licenses, registrations, and authorizations. 	90 days
<ul style="list-style-type: none"> — In consultation with the Assistant to the President for Economic Policy, take steps to encourage innovation as a result of the review. 	180 days

Access to Federal Reserve Services – The FRB is directed to:

Action Required	Timeframe
<ul style="list-style-type: none"> — Conduct a comprehensive evaluation of the legal, regulatory, and policy framework governing access to Reserve Bank payment accounts and payment services by uninsured depository institutions and non-bank financial companies, including those engaged in digital assets and other novel financial activities (defined as covered firms), and those functioning as direct participants in real-time payment networks. — Report to the President, through the Assistant to the President for Economic Policy, on an assessment of: <ul style="list-style-type: none"> - Legal authority of the Federal Reserve to give direct access to Federal Reserve payment account and payment services to covered firms. - Options for expanding such access. - Legal impediments that preclude direct access, and legislative or regulatory options that would enable such access. - Whether the Federal Reserve Banks have legal authority to act independently of the FRB in granting or denying access to Reserve Bank payment accounts and payment services, and if so, what regulations or policies ensure that covered firms are treated on a consistent basis. 	120 days
<ul style="list-style-type: none"> — To the extent the FRB determines existing law permits the extension of direct access for covered firms to Reserve Bank payment accounts and payment services: <ul style="list-style-type: none"> - Establish transparent application procedures for such access. - Make determinations with respect to complete applications within 90 days of the application date. 	180 days

Proposals: Federal Reserve Special-Purpose Payment Account

The proposals to establish the FRB Payment Account follow the 2022 release of the FRB’s Account Access Guidelines (Guidelines - see KPMG Regulatory Alert [here](#)), which established a three-tiered framework to guide Reserve Bank assessments of requests for accounts and services, as well as a recent [request for information](#) on a “prototype Payment Account,” which sought information on whether a tailored payment account could meet the needs of eligible entities that are not federally-insured (considered Tier 2 and Tier 3 institutions under the Guidelines) and also meet the material risks identified in the Guidelines (e.g., operational, liquidity, cyber, fraud, money laundering).

The FRB summarizes that the proposed Payment Account would facilitate access by eligible institutions, including uninsured depository institutions, to Federal Reserve services for clearing and settling payment activity, subject to a standardized set of terms that together would reduce the operational complexity and residual risk profile of the Payment Account relative to a Federal Reserve Master Account. Reserve Banks would be expected to continue to assess all account requests, including Payment Account requests, against the Guidelines.

The three rule proposals would work together, with amendments to the Payment System Risk Policy (PSR Policy) and Guidelines including references to the Regulation A and Regulation D amendments that would implement certain standardized terms for Payment Accounts. Key features follow.

Topic	Payment Account Standard Terms – As Proposed	Implementing Document
Eligibility	Institutions that are legally eligible under the Federal Reserve Act or other federal statute to maintain an account at the Reserve Banks and receive services.	Federal law
Closing Balance	Closing balance limits would be set by the Reserve Bank based on expected payment activity in the account, though subject to a limit of \$1 billion. There would be no limit on intraday balances.	PSR Policy
Intraday Credit	Access to intraday credit would not be permitted. Transactions that would cause an overdraft would be rejected.	PSR Policy
Available Services	Only those services for which the Reserve Banks can automatically reject transactions that would cause an overdraft would be permitted to settle in a Payment Account (i.e., currently, the Fedwire Funds Service, the FedNow Service, National Settlement Service, and the Fedwire Securities Service for securities transfers free of payment).	PSR Policy
Prohibitions	A Payment Account holder may not act as a: <ul style="list-style-type: none"> — “Correspondent” as defined in the Reserve Bank Operating Circular No. 1 (OC 1) by permitting other legally eligible institutions to settle their services activity directly in the Payment Account. — “Respondent” as defined by OC 1 by settling its services activity directly in another institution’s Master Account. 	PSR Policy
Illicit Finance Risk	A Reserve Bank may require a Payment Account holder to provide (ad hoc or periodically) information to demonstrate its compliance with BSA/AML and OFAC requirements.	PSR Policy
Discount Window	Access to credit at the discount window would not be permitted.	Regulation A
Interest on Balances	Interest would not be paid on balances.	Regulation D
Excess Balance Account Participation	Participation in an excess balance account would not be permitted.	Excess Balance Account Participation
Request Review Timeline	Reviews of Payment Account requests from Tier 2 and Tier 3 institutions would generally be completed within 90 calendar days of receiving all requested documents.	Request Review Timeline

Additional clarifications to the requirements for Payment Accounts include:

- Reserve Banks would not recognize third-party interests for Payment Accounts.
- An institution may only maintain one account except in very limited circumstances.
- Master Accounts do not have a standard set of risk-mitigating terms (although Reserve Banks have discretion to impose terms on Master Accounts) and are separate from Payment Accounts.
- Proposed changes to Regulation A would change neither the existing programs under which the Reserve Banks

generally provide discount window credit (primary credit, secondary credit, and seasonal credit) nor the process for establishing the primary credit, secondary credit, and seasonal credit rates.

- The FRB is encouraging Reserve Banks to pause decisions on requests for Reserve Bank accounts and services from Tier 3 institutions until it has completed the policy development process on the Payment Account proposal.

For more information, please contact [Laura Byerly](#) or [Todd Semanco](#).

Guidelines for Evaluating Fed Member Account & Services Requests

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<p>Definition: Eligible institutions that are federally insured</p> <p>Review Level: Less intensive; more streamlined</p> <p>Rationale: Already subject to standard and comprehensive federal banking regulations, and detailed regulatory and, in most cases, financial information is readily available</p>	<p>Definition: Eligible institutions that are not federally insured, but:</p> <ul style="list-style-type: none"> • Are subject to prudential supervision by a federal banking regulator, or • Have a holding company that is subject to FRB oversight <p>Review Level: Intermediate</p> <p>Rationale: Subject to similar, but not identical, regulations as Tier 1 institutions, and can therefore present greater risks. However, Reserve Banks will have supervisory information and some regulatory authority over Tier 2 institutions</p>	<p>Definition: Eligible institutions that are not federally insured, and not considered Tier 2, such as:</p> <ul style="list-style-type: none"> • Federal- and state-chartered institutions without holding companies subject to FRB oversight, or • Institutions subject to a regulatory framework substantially different than federally insured institutions (“novel” charters) <p>Review Level: Strictest</p> <p>Rationale: May be subject to substantially different regulatory frameworks, presenting greater risks than Tier 1 and 2 institutions, and detailed regulatory and financial information may not exist or be available</p>
Tier 1 Institutions	Tier 2 Institutions	
Tier 3 Institutions		

Source: Federal Reserve Board Final Guideline for Evaluating Account and Service Requests, 87 FR 51099; KPMG Regulatory Alert

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