KANSAS BANKERS ASSOCIATION

July 22, 2026

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

VIA ELECTRONIC SUBMISSION

Re: Proposed Revisions to the Federal Reserve Policy on Payment System Risk and the Guidelines for Account and Services Requests; Regulation A: Extensions of Credit by Federal Reserve Banks; and, Regulation D: Reserve Requirements of Depository Institutions (Docket Nos.: OP-1878; R-1892; R-1893)

Dear Mr. McDonough:

The Kansas Bankers Association (KBA) appreciates the opportunity to submit comments on the above-referenced Federal Reserve's proposal. The KBA has an interest in the proposal as a trade association with a membership of 99% of the banks headquartered in Kansas. Our membership also includes 24 out-of-state commercial banks operating in Kansas.

Overall, the KBA supports the Federal Reserve's effort to create a limited-purpose account ("Payment Account") structure that promotes payments innovation while maintaining the safety, soundness, and integrity of the U.S. financial system. This Payment Account would restrict functionality, including no interest on balances, no overdrafts or daylight credit, no discount window access, and would only offer the ability to utilize payment services that limit credit risk to the Federal Reserve. The KBA believes these limitations provide an appropriate foundation for a risk-based framework and supports the concept of allowing eligible institutions to participate in payment activities, while making it clear that there would be no access to the broader privileges associated with a Federal Reserve Master Account.

However, eligibility alone should not guarantee access to a Payment Account. Instead, institutions seeking access should demonstrate strong governance, effective risk management, operational resilience, cybersecurity preparedness, and compliance capabilities. Applicants should be subject to meaningful supervisory oversight, and the Federal Reserve should carefully evaluate management expertise, internal controls, and operational readiness before granting access.

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The KBA strongly endorses a plan that maintains a clear distinction between Payment Accounts and Master Accounts. Additionally, having a Payment Account should not create an automatic pathway to Master Account access. Instead, any institution seeking a Master Account should undergo a separate application and review process. The KBA recommends that Master Accounts remain reserved for depository institutions with comprehensive federal prudential supervision and federally insured deposits.

To mitigate financial and operational risks, the KBA supports the proposal's requirements for prefunding payments, prohibitions on overdrafts, and restrictions on access to certain Federal Reserve services. Furthermore, the KBA believes the plan must have a phased implementation approach under which institutions begin with conservative transaction limits that can expand only after demonstrating sustained compliance and effective risk controls. This "crawl, walk, run" approach is intended to ensure that new participants can safely operate within the payments ecosystem before receiving greater access or higher transaction capacities.

Holders of these Payment Accounts must be required to maintain compliance programs comparable to those of insured depository institutions, including adherence to anti-money laundering, counter-terrorist financing, sanctions compliance, cybersecurity, and operational resilience standards. The Federal Reserve should require direct federal banking agency supervision as a condition of access.

In addition, there should be prohibitions on correspondent banking activities and "nesting" arrangements that could allow ineligible entities to indirectly access Federal Reserve payment services. Payment Accounts should not be used to process transactions on behalf of third-party institutions or service providers in a manner that replicates correspondent banking functions. Monitoring and enforcement mechanisms should be established to identify and address activity that exceeds an account holder's stated business purpose.

The KBA believes Payment Account access should be limited to payment services that can operate under a prefunded model and present minimal credit risk. The KBA supports excluding FedACH access due to settlement, return, fraud, and compliance concerns, and also recommends that Payment Account holders not receive access to the National Settlement Service or the Fedwire Securities Service because those services are designed for highly regulated institutions and could introduce unnecessary operational, liquidity, and systemic risks if expanded to less supervised entities.

The KBA is in favor of closing balance limits on Payment Accounts and generally agrees with the Federal Reserve's proposal to use activity-based limits. However, the KBA recommends the use of a transparent and standardized methodology across Reserve Banks and cautions against increasing balance limits without substantial operational experience and demonstrated need. The KBA also supports codifying the prohibition on discount window access and the payment of interest on balances, so that these restrictions are maintained in the future. Doing so would help to avoid unintended impacts on monetary policy and the banking system.

Finally, the KBA calls for greater transparency regarding application requirements, review standards, approval decisions, and enforcement actions. The Association recommends that the Federal Reserve publish clear eligibility criteria, disclose payment services authorized for approved applicants, and

retain flexibility to extend review periods beyond ninety days when warranted by risk considerations. The KBA also encourages the establishment of clear enforcement authorities, including the ability to impose restrictions or terminate access when participants fail to meet ongoing operational, compliance, or risk-management expectations.

In conclusion, the KBA supports the Federal Reserve's proposed Payment Account framework as a measured approach to fostering innovation in the payments system. However, our support is contingent upon the inclusion of strong supervisory requirements, rigorous compliance expectations, conservative operating limits, restrictions on indirect access arrangements, robust financial and operational safeguards, and clear enforcement mechanisms. With these protections in place the KBA believes the framework can expand payment system participation while preserving financial stability and protecting the public interest.

The KBA appreciates the opportunity to comment and stands ready to engage further as the Federal Reserve refines the final rule

Respectfully submitted,

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