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Innovation Within Limits

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Federal Reserve Board Proposes "Payment Account" Prototype to Facilitate Payments Innovation While Limiting Reserve Bank Risk

January 15, 2026

By Mercedes Kelley Tunstall
Partner | Financial Regulation

By Daniel Meade
Partner | Financial Regulation

Overview

On December 19, 2025, the Federal Reserve Board issued a **Request for Information** ("RFI") on a proposed "Payment Account prototype." The proposal responds to growing pressure from payments-focused institutions — particularly uninsured and novel charter entities — seeking faster, more predictable access to Federal Reserve payment rails that currently are only available with a Federal Reserve Bank master account. Comments are due by February 6, 2026, and the FRB has indicated that any decision to proceed would be accompanied by conforming changes to existing guidance and regulations.

Following the **2022 Account Access Guidelines** (which we discussed **here**), which established a three-tier framework for the review process for different types of institutions, giving highest scrutiny to uninsured financial institutions that are not subject to prudential supervision by a federal banking agency, novel fintech and crypto-focused firms struggled to receive approval for a Federal Reserve Bank master account. Courts have generally **held** that while many novel financial institutions are *eligible* for a Fed master account, the 12 Federal Reserve Banks, acting under the Guidelines established by the FRB, have *discretion* on whether to approve or deny access to a Fed master account.

The **staff memo to the FRB** notes the proposed Payment Account prototype aims to strike a balance between supporting payments innovation and preserving the Federal Reserve's longstanding risk controls, monetary policy transmission mechanisms, and financial stability objectives. Some master account applicants have raised concerns about lengthy review timelines, uncertainty of outcomes, and the mismatch between their limited business models and the broad privileges—and risks—associated with a master account.

Against this backdrop, the RFI, at its core, asks whether a more tailored account structure could address Reserve Bank concerns without expanding statutory eligibility or undermining supervisory safeguards. The resulting Payment Account prototype is framed explicitly as a risk-mitigating alternative, not as a relaxation of access standards or a new category of eligible institutions.

The Payment Account would be a special-purpose Reserve Bank account used solely for clearing and settling the account holder's own payment activity. Unlike a master account, it would be subject to a series of structural limitations designed to constrain balance-sheet risk, credit exposure, and operational complexity.

Most notably, Payment Accounts would carry a strict overnight balance cap, proposed as the lesser of $500 million or 10% of the institution's total assets. Balances could exceed this cap intraday to facilitate settlement flows, but excess funds would need to be reduced before the close of the Federal Reserve business day. Importantly, balances held in Payment Accounts would not earn interest, reinforcing the expectation that the account serves transactional, not investment or liquidity-storage, purposes.

To further reduce risk to the Reserve Banks, Payment Account holders would be denied access to both intraday credit (daylight overdrafts) and the Federal Reserve's discount window lending programs. All payments would need to be fully prefunded, and any transaction that would result in an overdraft would be automatically rejected.

Access to Federal Reserve services through a Payment Account would be deliberately narrow. Eligible services would include:

i. The Fedwire® Funds Service;

ii. The National Settlement Service;

iii. The FedNow® Service; and

iv. The Fedwire® Securities Service for Free Transfers only

Services not available under the Payment Account prototype include:

i. FedACH® Services;

ii. Check Services;

iii. FedCash®; and

iv. The Fedwire® Securities Service for Transfer Against Payment

The FRB noted in the RFI that these exclusions reduce credit risk to the Reserve Banks and reflect the absence of automated safeguards against overdrafts in those services, not a judgment about their broader utility.

If the Payment Account concept is undertaken by the Federal Reserve System, whether an institution has a master account or a payment account is mutually exclusive. That is to say that an institution would be permitted to maintain *only one* Federal Reserve account relationship, reflecting the Reserve Banks' preference to limit debtor-creditor relationships with a single counterparty. Payment Accounts would also be barred from correspondent banking activity and could not be used to settle transactions on behalf of third parties.

By limiting the risk to the Reserve Banks and the payment system as a whole, Payment Account applications would generally be subject to a streamlined review process. Reserve Banks would still apply the 2022 Account Access Guidelines, but staff anticipates that most Payment Account requests could be resolved within approximately 90 days after submission of complete documentation. Reserve Banks would retain discretion to deny applications or impose additional conditions, and enhanced due diligence could be required in higher-risk cases.

The Payment Account proposal represents a notable middle ground and evolution in the Federal Reserve's approach to account access, reflecting increased sensitivity to the diversity of modern payments business models. If implemented, the framework could lower entry barriers for payments-focused institutions while preserving the Federal Reserve's risk posture and policy objectives. At the same time, the proposal raises important questions about competitive neutrality, balance-sheet impacts, and the long-term role of Reserve Banks in an increasingly real-time, technology-driven payments ecosystem.

The FRB is seeking public comment on all aspects of the prototype, but explicitly asked for views on seven specific questions. FRB Governor Michael Barr dissented on the vote to approve the publication of the RFI, saying in a **statement** that he could not support the current RFI "because it is not sufficiently specific about safeguards to protect against the accounts being used for money laundering and terrorist financing by institutions we do not supervise [however,]... I remain open to supporting a revised framework."

The UK's House of Lords Reports on Concerns About Private Market Exposures

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By Alix Prentice
Partner | Financial Regulation

On 9 January the Financial Services Regulation Committee of the UK Parliament's House of Lords published its report on "**Private markets: Unknown unknowns**" (the **Report**). Set in the context of a growth in global private markets (which term generally refers to private equity and private credit funds, but includes all forms of non-bank financial intermediation including venture capital, private real estate and infrastructure finance) from less than $4 trillion in AUM in 2008 to around $16 trillion as at the date of the report (with $185 billion of that AUM in the UK) the Report focuses, unsurprisingly, on what concerns around the rapidity of this growth, the significant degree of interconnectedness between private markets and banks and insurers, and weakening lending standards means for UK financial stability. Importantly, though, the Report also flags how unintended consequences of the post-GFC bank capital reforms from 2008 onwards have led to a squeeze on the availability of credit for SMEs which has affected growth, as well as contributed to the exponential rise of provisioning of finance through private market channels.

Given the rapidity of this change, the Report makes a number of broad recommendations, many of which are self-evident. Of note:

1. It examines the increasing use of significant risk transfers by banks, as well as an appetite in the market for securitising private credit, and urges the Bank of England and Prudential Regulation Authority (**PRA**) to "*pay close attention to the development of these markets*";

2. SMEs (businesses with at least two of a turnover of less than £54 million, a balance sheet of less than £27 million, and fewer than 250 employees) are currently showing a limited appetite to borrow. While the private credit market does not appear to be exploring the SME market, the Report urges the PRA to look at how changes to the capital regime could be made to maximise the amount available to support lending to SMEs.

3. The Report generally urges the Government, the Bank of England and the relevant regulators to get a swift grip on the information available on sector-by-sector lending. While it recognises that the Bank of England is conducting its System Wide Exploratory Scenario (which explores how the UK financial system would respond to a market shock) on a voluntary basis, it recommends that the Government keeps the powers available to the Bank under review, contingent on its outcome;

4. Finally, the Report expresses concise concern that the UK Government (HM Treasury) does not have a firm grasp on "*the emerging issues related to private markets and their potential impact on financial stability"* and is overly passive.

CFPB Update

January 15, 2026

By Mercedes Kelley Tunstall
Partner | Financial Regulation

The Consumer Financial Protection Bureau (CFPB) will receive a new infusion of funding which was announced by the CFPB's Acting Director, Russell Vought, who is also the Director for the Office of Management and Budget. The request for funding was required by the District of the District of Columbia judge overseeing the lawsuit brought by the CFPB's worker's union, the National Treasury Employees Union. Accordingly, Vought has requested $145 Million to fund the CFPB at least through March of this year.

Speaking of CFPB lawsuits, on December 22, 2025, twenty-two state Attorneys General (AGs) **joined in a lawsuit in the District of Oregon**, against Vought, the CFPB and the Board of Governors of the Federal Reserve Bank (the Board) alleging that they have violated the Administrative Procedures Act (APA), have engaged in *Ultra Vires* action in violation of Congressional mandates and have violated the separation of powers required by the Constitution by not carrying Congressional mandates. On the APA charges, the AGs stated, "No constitutional or statutory authority authorizes the CFPB to refrain from fulfilling its statutory duties, or to violate federal law by refusing to request funding sufficient to maintain its statutory obligations, including maintenance of the Consumer Response System it is required to make available to Plaintiffs. By failing to request funding from the Board of Governors, Defendant Vought puts the operations of the CFPB as a whole at risk of imminent cessation in their entirety." The AGs seek relief such that the CFPB receive funding and commence carrying out its statutory obligations, which the AGs detailed in the complaint and include maintenance of and taking action based upon the Consumer Complaint database; collecting, analyzing and distributing data related to mortgages pursuant to the Home Mortgage Disclosure Act; and partnering with the states to address unfair, deceptive or abusive acts or practices engaged in by companies that harm consumers.

The same set of 22 states also submitted **an amicus brief** supporting the City of Baltimore's lawsuit against Vought, the CFPB and the Board that is pending in the District of Maryland, wherein they reiterate many of their statements in the Oregon lawsuit.

While Vought's initial request for funding, pursuant to court order, somewhat allays the concerns raised by the AGs, the CFPB must follow through and commence its statutorily-mandated activities *with* that funding. To date, it has not taken such steps.

Insured State Member Banks Receive Support to Engage in Crypto-Asset Activities

January 15, 2026

By Mercedes Kelley Tunstall
Partner | Financial Regulation

By Daniel Meade
Partner | Financial Regulation

On December 22, 2025, the Board of Governors of the Federal Reserve (the Board) **issued a final rule** that rescinded a 2023 policy statement and that in turn issued a new policy statement. In a **memo submitted to the Board in November**, Board staff explained that the 2023 policy statement was put into place at the time to address "particular sets of facts related to certain crypto-assets" and that the policy was intended to describe how the Board would approach regulating state member banks interested in engaging in such crypto-asset activities. Specifically, the 2023 policy statement established that all state member banks, insured and uninsured alike, were required to apply to the Federal Deposit Insurance Corporation (FDIC) for permission to engage in crypto-asset activities, even if national banks were permitted to engage in those activities by the Office of the Comptroller of the Currency (OCC).

The 2025 policy statement establishes that to the extent national banks are permitted to engage in crypto-asset activities as determined by the OCC, insured state member banks may also engage in those activities. Uninsured state member banks still may not engage in such crypto-asset activities without express permission. Should an uninsured state member bank wish to engage in such activities, "the Board will engage with the FDIC and OCC as appropriate" in a manner consistent with the parameters described in the policy statement.

Specifically, for the Board to evaluate whether an uninsured bank should be permitted to engage in the crypto-asset activity, the policy statement states that the Board should consider (i) the risks presented by the proposed activities and the bank's planned internal controls framework to address such risks and (ii) how the institution would mitigate the risks otherwise addressed by deposit insurance and FDIC resolution. The latter may be demonstrated by the bank demonstrating that it has an adequate resolution plan, as well as either (i) a sufficient amount of total loss-absorbing capacity or (ii) high-quality liquid assets equal to 100 percent of the bank's demand deposits and other short-term liabilities.

The parameters described by the Board for uninsured state member banks are meaningful for non-bank companies considering whether to become a Permitted Payment Stablecoin Issuer pursuant to the GENIUS Act. In other words, such companies can anticipate being required to demonstrate similar kinds of loss-absorbing capacity and resolution plans.

Consumer Lending and Leasing Dollar Limits Updated

January 15, 2026

By Mercedes Kelley Tunstall
Partner | Financial Regulation

The Consumer Financial Protection Bureau released its updated dollar amounts for the threshold at which consumer loans are not covered by much of the consumer protections available pursuant to the **Truth In Lending Act** (TILA) and the **Consumer Leasing Act** (CLA). For 2026, the exemption threshold increases to $73,400 from $71,900 in 2025. This adjustment in dollar amount is adjusted every year, which calculation is derived from the Consumer Price Index (CPI-W) that showed an increase of 2.1%. This means that when a non-mortgage loan or lease is made in an amount that exceeds $73,400 in 2026, such loan or lease is not subject to the majority of consumer protections available under TILA and CLA, including disclosure requirements.