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Comments on Docket No. OP-1877, Request for Information and Comment on Reserve Bank Payment Account Prototype

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Request for Information and Comment on Reserve Bank Payment Account Prototype
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Docket No. OP-1877

Dear Board of Governors of the Federal Reserve System:

Thank you for the opportunity to comment on Docket No. OP-1877 regarding the proposed Reserve Bank Payment Account (RBPA) prototype. The prospect of an RBPA comes at a pivotal time, given the passage of the GENIUS Act and the potential for rapid and widespread adoption of dollar-based stablecoins outside the United States. By providing eligible payment-focused institutions with direct, limited access to Federal Reserve payment services, an RBPA has the potential to improve settlement efficiency, reduce reliance on correspondent banking relationships, and enhance the resilience of dollar-based payment activity, especially for stablecoins.

Some observers expect dollar-based stablecoins to expand significantly and further entrench the global dollar system. If realized, such expectations also imply a greater potential for future dollar funding stress and increased reliance on the Federal Reserve as a backstop. It is therefore important to establish appropriate guardrails ex ante so that the Federal Reserve can implement the RBPA in a manner that is both operationally efficient and supportive of liquidity under stress.

To that end, this comment addresses two questions raised by the Board in its request for information on the RBPA. First, in response to Question 6, I argue that while there are reasonable considerations in favor of paying interest on RBPA balances, there are more compelling reasons for not doing so, particularly preserving the Federal Reserve's seigniorage flows and, by extension, its operational independence.

Second, in response to Question 5, I contend that the overnight balance limit on an RBPA should not be a fixed or arbitrary threshold as is currently proposed, but rather should be calibrated to stressed short-horizon liquidity needs and broader structural considerations related to the displacement of

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physical currency. This calibration would ensure continuity of payments and reduce the risk of forced asset sales during periods of market stress. The sections that follow address these issues in turn.

Question 6: Should the Fed Pay Interest on the RBPA?

Some research suggests that allowing digital money issuers to pay interest on digital money holdings could introduce competitive pressures that encourage banks to expand, rather than contract, financial intermediation.[1] This line of work indicates that there may be arguments in favor of permitting interest payments on RBPA balances. In practice, the institutions most likely to seek access to an RBPA—at least in the near term—are payment-focused firms that are affiliated with dollar-based stablecoins. Given the GENIUS Act's prohibition of interest payments on stablecoins and the current political controversy surrounding this issue, however, a zero-interest RBPA may represent the most prudent initial design choice.

Another reason for not paying interest on RBPA balances is that dollar-based stablecoins are more likely to displace physical currency than to displace bank deposits. US-based banks are already adapting to new payment technologies through initiatives such as tokenized deposits, and they retain a comparative advantage in domestic payments by avoiding the on-ramp and off-ramp costs associated with stablecoins. As a result, stablecoins are more likely to fill an important cross-border niche, particularly by supporting individuals and businesses abroad operating in environments where domestic currencies are unstable or payment systems are unreliable. Taken together, these facts suggest that stablecoins accessing an RBPA would primarily function as substitutes for physical US dollars, which already earn zero interest.[2]

The most important reason, however, for not paying interest on RBPA balances is the need to preserve the Federal Reserve's low-cost funding base and, by extension, its financial and institutional independence. To the extent that dollar-based stablecoins are widely adopted, especially outside the United States, they are likely to displace physical US currency over time. Because physical currency represents a zero-interest liability, this displacement would erode the Federal Reserve's traditional "currency franchise" and raise the effective cost of funding its balance sheet.[3] Estimates by former Federal Reserve economist Jim Clouse suggest that under plausible scenarios, a sustained decline in currency in circulation could reduce cumulative Federal Reserve net income by $1.5 trillion to $2.5 trillion over coming decades.[4]

Recent experience has shown that prolonged operating losses, even when accounted for through deferred assets, can heighten political scrutiny and risk undermining the Federal Reserve's independence. International experience underscores this concern: In Sweden, where physical currency usage has fallen sharply, the Riksbank has been compelled to introduce non-interest-bearing central

[1] Jonathon Chiu, Seyed Mohammadreza Davoodalhosseini, Janet Jiang, and Yu Zhu, "Bank Market Power and Central Bank Digital Currency: Theory and Quantitative Assessment," *Journal of Political Economy* 131, no. 5 (2023): 1213–48; Lin William Cong, "Stablecoins and Banking: Deposit Dynamics, Financial Stability, and Regulatory Design," SSRN working paper (December 7, 2025), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=6163266.

[2] David Beckworth, "Barbarians at the Fed's Gate: Stablecoins Are Knocking and the Fed Is Letting Them Inside," *Macroeconomic Policy Nexus*, October 30, 2025, https://macroeconomicpolicynexus.substack.com/p/barbarians-at-the-feds-gate.

[3] David Beckworth, "The Fed's Losses, Atlanta's Lesson, and the Case for Balance-Sheet Reform: Why One Fed Bank Remained in the Black While the Rest Fell into Losses—and What That Means for the Future Operating Framework," *Macroeconomic Policy Nexus*, December 8, 2025, https://macroeconomicpolicynexus.substack.com/p/the-feds-losses-atlantas-lesson-and.

[4] Jim Clouse, "Stablecoins, New Payments Technologies, and the Potential Threat to Central Bank and Government Finances," Andersen Institute Note, July 21, 2025, https://anderseninstitute.org/stablecoins-threat-to-central-banking-and-govt-finance/.

bank deposits to preserve its earning capacity and operational autonomy.[5] In this context, maintaining a zero-interest RBPA would provide an important source of interest-free funding that could offset the erosion of the currency franchise in a more digital dollar environment, while remaining consistent with the payments-only purpose of the RBPA.

The case for maintaining an interest-free RBPA also has implications for how overnight balance limits are calibrated, since balances must be large enough to support payments activity and provide a partial substitute for declining currency-based funding. This leads to the next section.

Question 5: Should the Fed Impose an Overnight Balance Limit on the RBPA?

The primary purpose of an RBPA is to support the safe and continuous functioning of payment and settlement activity. From this perspective, the key question is not whether an overnight balance limit should exist, but how it should be calibrated to ensure continuity of payments under stress. An overnight balance limit that is set too low, relative to potential redemption and settlement demands, could unintentionally undermine payment continuity by forcing rapid asset sales or delaying payments during periods of heightened liquidity pressure.

A useful framework for calibrating overnight balance limits is the logic underlying the Liquidity Coverage Ratio (LCR), adapted to the specific characteristics of payment stablecoins and RBPA use. While RBPAs are not banks and should not be subject to bank regulation per se, the core insight of the LCR—that highly liquid assets should be sufficient to meet stressed outflows over a defined horizon—is directly applicable. In this context, the relevant stress horizons are likely to be much shorter than the LCR's 30-day window, reflecting the potential for highly front-loaded redemption and settlement demands that can materialize over intraday or one-day periods.

Calibrating overnight balance limits based on stressed short-horizon liquidity needs would help ensure that RBPA users can meet payment and redemption obligations without resorting to rapid liquidation of Treasury securities during periods of market stress. In this way, appropriately sized balance limits would support both continuity of payments and Treasury market stability.

In addition, as discussed above, the calibration of overnight balance limits should account for the likelihood that dollar-based stablecoins will displace physical currency over time, eroding a traditional source of zero-interest funding for the Federal Reserve. To the extent that RBPAs operate on an interest-free basis, overnight balance limits should be sufficiently large to allow such balances to scale with payment activity and provide an offset to the decline in currency-based funding, consistent with the payments-only purpose of the RBPA.

These considerations suggest that overnight balance limits should not be fixed or arbitrary, but instead be designed to satisfy two related objectives: (1) ensuring continuity of payments under stressed short-horizon liquidity scenarios and (2) allowing interest-free RBPA balances to scale with the structural shift from physical currency toward digital dollar payments. Accordingly, the overnight RBPA balance limit could be set as the maximum of stressed one-day liquidity needs and a minimum interest-free balance linked to the estimated displacement of physical currency, with the binding constraint determined by whichever requirement is larger. Formally, this can be represented as follows:

$$\textit{RBPA Balance Limit} \geq \textit{Max (Estimated Stressed 1-Day Net Redemptions, Estimated Displaced Physical Currency)}$$

[5] Sveriges Riksbank, "The Riksbank's Right to Demand Interest-Free Deposits (Deposit Requirement)," last accessed February 4, 2026, https://www.riksbank.se/en-gb/markets/interest-free-deposits-deposit-requirement/.

Initially, the stressed short-horizon liquidity requirement would be expected to bind and determine the RBPA balance limit. Over time, however, as dollar-based stablecoins become more widely adopted and displace physical currency, the minimum interest-free balance linked to currency displacement would be expected to play a more prominent role in calibrating the balance limit. The specific calibration of these parameters can be refined as the Federal Reserve gains experience with RBPA usage and as empirical evidence on payment flows and redemption behavior becomes available.