



# Financial Services Management

## Master-Account Transparency

### Cite

FRB, Notice and Request for Comment, Guidelines for Evaluating Account and Services Requests

### Recommended Distribution:

Payments, Fintech, Corporate Planning, Corporate Development, Legal, Government Relations

### Website:

<https://www.federalreserve.gov/newsevents/pressreleases/files/other20221104a1.pdf>

## Impact Assessment

- It could become easier to know who has payment-system access, increasing Fed-decision and market transparency.
- However, it would still be impossible to know who sought access or was refused, continuing the opacity of Board and Reserve-Bank access decisions and any district arbitrage or favoritism concerns.

## Overview

Although the Fed characterized its final payment-system access guidelines as “transparent,”<sup>1</sup> FedFin’s analysis and other assessments concluded that the Federal Reserve Banks retained considerable discretion to pick and choose those granted master accounts and there would be no ready way to identify which institutions had or lost this essential status for any provider of retail or wholesale deposit-taking services or their equivalent. The Board is now seeking to counter criticism with a revision to the guideline obliging Reserve Banks to create a quarterly list of institutions holding or ceasing to hold master-account privileges.

## Impact

As the request for comment notes, the Board and Reserve Banks have long believed that public disclosure of which institutions have master accounts is tantamount to disclosing confidential business information even if decisions are based on publicly-available information. Now, it is reconsidering that view and proposing additional public insight based on responses to the final master-account decision guidelines. The proposal seeks to balance the risk of public disclosure the Fed readily

<sup>1</sup> See **PAYMENT24**, *Financial Services Management*, March 9, 2022.

---

sees with transparency benefits it has not named. Still, the Board has decided on a possible format that it believes may provide more transparency without what it fears is undue risk to master-account applicants and holders.

As discussed below, the Fed is proposing System-wide lists with only limited information on entities with master accounts. It considered an alternative in which there would be a searchable database containing this or additional information, deciding that – while this would be more useful to the public – it would be challenging to construct. Although this option is noted in a footnote in the proposal, comment is not directly sought on it.

---

## What's Next

These proposed guidelines were released on November 4; comments are due sixty days after *Federal Register* publication. Shortly after release, Senate Banking Ranking member Toomey (R-PA) took sharp issue with the proposal, saying it lacks the transparency essential via disclosure also of those denied master accounts and is unduly limited and difficult to use. Republican members of Senate Banking have joined with Sen. Toomey in sharply criticizing the Federal Reserve Bank of Kansas City's decision first to grant a nonbank (Reserve Trust) a master account and then, following controversy, withdraw it. Assertions remain that this decision – so far unique for nonbanks depository institutions – reflected favoritism. Republicans were also sharply critical of the Board's decision to stand by the Reserve Bank, taking issue with the extent to which the final guidelines meaningfully improve not only transparency, but also Fed accountability.<sup>2</sup> If Republicans take control of the Senate, then this issue may well be addressed in legislation also making Reserve Bank leadership more accountable to Congress.

---

## Analysis

### A. Proposal

The Board is proposing to establish a requirement for Reserve Banks to publish on a quarterly basis a consolidated, sortable list of depository institutions with access to accounts and services whether the institution settles its transactions directly in its own master account or in its correspondent institution's master account. This report would be a single, System-wide document with two lists detailing only the name and location of depository institutions and non-federally insured depositories with access rights. Another disclosure would note entities that have gained or lost this right without indicating if an institution no longer has access due to Fed action or following its own decision. These lists would then be posted on a single website, with the Board implying that it prefers this approach because it would make it difficult quickly to determine which entities may have lost master-account privileges. As noted, no transparency is proposed for master-account access applications and actions on them.

---

<sup>2</sup> See *Client Report FEDERALRESERVE70*, June 22, 2022.

---

***B. Request for Comment***

Issues on which views are sought include:

- how information would be provided;
- the publication schedule;
- the need for additional data elements (e.g., the date access is granted) and any additional data elements that could prove harmful;
- additional actions to promote transparency (e.g., lists of institutions seeking access and action thereon); and
- the extent to which additional institutions – i.e., financial market utilities – should be included in these reports.