coinbase

To:

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

July 27, 2026

Re: Docket No. R-1893; RIN 7100-AH25

Proposed Amendments to Regulation D: Reserve Requirements of Depository Institutions

Coinbase Global, Inc. (**Coinbase**) appreciates the opportunity to comment on the notice and request for comment on proposed amendments to Regulation D to specify that Reserve Banks would not pay interest on balances maintained in Payment Accounts (the **Proposal**).

As described in Coinbase's comment letter regarding the Board's proposed revisions to the Federal Reserve Policy on Payment System Risk and Account Access Guidelines to accommodate Payment Accounts (the **Payment Account Proposal**), while we appreciate the effort of the Board of Governors of the Federal Reserve System (the **Board**) to develop a framework intended to support private-sector innovation in payments, for the proposed Payment Account to be a commercially viable account option and avoid creating a structural handicap to innovative payment providers, the Board must provide for the payment of interest on balances, along with other revisions recommended in our comment letter on the Payment Account Proposal.

As we explain in this letter, we believe the proposed zero interest rate provision of Regulation D would preserve, instead of mitigate, the financial stability risks the Board seeks to address by establishing Payment Accounts and broadening access to Federal Reserve payment infrastructure.

Yours sincerely,

Faryar Shirzad
Chief Policy Officer
Coinbase

Introduction

In our response to the Payment Account Proposal,[1] we explained that the proposed zero interest rate on Payment Account balances would substantially undermine the Payment Account's utility and commercial attractiveness and that alternatives would better achieve those objectives without endangering the soundness of the operations of any Federal Reserve Bank.

Imposing a blanket zero rate on legally eligible institutions would unduly penalize them for utilizing a more limited account structure and discourage uptake of the new Payment Accounts. **If the Board is concerned about financial stability issues related to the earning of interest by legally permissible institutions, it should use more refined tools to influence their behavior, such as a flexible threshold on Payment Account balances, below which interest would be paid and above which it would not. The Board should also recognize that federally supervised and regulated firms are distinguishable from firms not subject to federal regulatory oversight.**

Together with the Payment Account Proposal's other risk-mitigating features, such an approach would better manage risks associated with financial stability and monetary policy implementation, while also providing sufficient commercial incentive for legally eligible institutions to use the Payment Account. As we explain below, there are several ways in which the payment of interest on at least a portion of Payment Account balances would better balance the Board's objectives of managing risks associated with Payment Accounts while supporting private-sector innovation than the proposed blanket zero interest rate.

More broadly, the Proposal[2] should not rely on economic disincentives to limit Payment Account use. If the Board intends for legally eligible institutions to adopt the Payment Account, the Payment Account should afford holders the same economic treatment as legacy holders of Master Accounts and be structured in a manner that makes it a commercially viable option. Failure to do so will undermine the Board's own stated goal of reducing reliance on traditional intermediaries and supporting private-sector innovation.

The Proposed Zero Interest Rate Incentivizes Behavior that Weakens the Board's Ability to Manage Risk

The Board acknowledges that the payment of zero interest on Payment Account balances and the Closing Balance Limit "serve a similar purpose" and "could have important interactions whereby a change in one of the terms could affect the efficacy of the other." We agree, and respectfully submit that the Board has not fully accounted for how the combination of these two terms creates a distinctive set of operational and

[1] Board of Governors of the Federal Reserve System, Proposed Revisions to the Federal Reserve Policy on Payment System Risk and the Guidelines for Account and Services Requests, 91 Fed. Reg. 30627 (May 26, 2026).
[2] Board of Governors of the Federal Reserve System, Regulation D: Reserve Requirements of Depository Institutions, 91 Fed. Reg. 30503 (May 26, 2026).

financial-stability risks. An objectively set threshold-based interest rate would mitigate these risks while leaving the Board's balance-sheet objective fully intact.

Zero interest may drive destabilizing end-of-day flows.

The Board intends to rely on both the proposed zero interest rate and the Closing Balance Limit to limit the size of Payment Account balances on the Federal Reserve's balance sheet, but the two terms operate differently.

The Closing Balance Limit operates as a ceiling, capping the funds an institution may retain overnight in a Payment Account. In contrast, zero interest operates as a continuous disincentive, penalizing every dollar held at the close of business by an amount equal to the prevailing market interest rate that the account holder could access through an intermediary, including intermediaries that hold interest-bearing balances in a full Master Account.

This penalty will drive Payment Account holders to sweep balances out of their accounts with the Reserve Bank and back to commercial-bank counterparties — which in practice today would often be global systemically important banks and other large correspondent banks — in the narrow window before the Federal Reserve's daily close every business day, well beyond the amount required to satisfy the Closing Balance Limit.

Because these outflows are structurally compelled by the zero-interest term, it is likely many Payment Account holders will seek to execute similar outbound sweeps simultaneously. On high-volume days and ahead of weekends and holidays, these end-of-day funding flows would ensure continued concentrated counterparty exposure among the limited set of systemically important banks, and introduce a new, correlated channel of stress transmission between Payment Account holders and the traditional banking system.

The Board's balance-sheet-focused analysis does not account for these second-order effects, which would be mitigated through even the partial payment of interest on Payment Account balances.

Zero interest is contrary to the Board's settlement-adequacy objective.

The Board expects that the prohibition on intraday credit and the automatic rejection of overdraft-causing transactions will give Payment Account holders "a strong incentive to maintain sufficient balances." But the zero-interest term provides the opposite incentive, encouraging account holders to maintain the thinnest possible balances required to clear payments so that they may avoid the opportunity cost of carrying excess funds which could be earning interest elsewhere. The Proposal thus builds into the Payment Account two directly conflicting incentives, and in doing so creates the risk that an account holder becomes unable to meet its payment obligations.

This tension is most acute over weekends and multi-day holidays, when the FedNow Service operates but external funding sources like commercial-bank counterparties, money markets, or corporate treasury operations may be unavailable. A Payment Account holder that has minimized its Friday closing balance to avoid the zero-interest penalty may find itself unable to fund FedNow settlement activity on Saturday or Sunday, with no discount window and no intraday credit to fall back on.

By discouraging Payment Account holders from maintaining balances sufficient to support continuous settlement and payment activity, the proposed zero interest rate would impede broader adoption and use of the FedNow Service by Payment Account holders. Moreover, this elevated risk of settlement failures is squarely contrary to the Board's objective of promoting financial stability. A return on balances retained at the close of business would reduce the incentive for account holders to maintain operationally fragile accounts, thereby advancing the Board's settlement-adequacy and operational-resilience goals.

These problems will be particularly salient for eligible institutions that are permitted payment stablecoin issuers (**PPSI**) under the Guiding and Establishing National Innovation for U.S. Stablecoins (**GENIUS**) Act.[3] A key innovation of payment stablecoins authorized under GENIUS is their 24/7 settlement capability. However, the proposed zero-interest term would drive PPSIs toward reliance on funding sources with significantly less availability and frustrate their ability to issue and redeem payment stablecoins on a 24/7 basis.

Zero interest works against the Board's balance-sheet objectives across the interest-rate cycle.

The Board's analysis of the zero-interest term examines behavior during "stress" and "non-stress" periods, but does not address how the disciplining effect of the zero-interest term varies across the interest-rate cycle. The zero-interest term disciplines balance behavior only through opportunity cost — the market return that a Payment Account holder forgoes by holding a non-interest-bearing balance at the close of business. That opportunity cost is not constant. When short-term rates are high, the cost of holding a zero-interest balance is high, and Payment Account holders have a strong incentive to minimize closing balances. But during a rate-cut cycle where short-term rates decline toward zero, the opportunity cost of holding a zero-interest balance also falls toward zero, taking with it the entire disciplining force of the zero-interest term. In a low-rate environment, Payment Account holders would face little or no penalty for holding balances in the account, and aggregate Payment Account balances would tend to expand.

This dynamic would have a procyclical effect on the Board's monetary implementation framework. Low-rate environments typically coincide with periods in which the Federal Reserve is already operating an enlarged balance sheet and an ample-reserves regime. The need, caused by the zero-interest term, for payment firms to swap reserve balances to higher-yielding sources would relax, contributing to balance sheet expansion when the balance sheet is already large. A blanket zero-interest rate for Payment Accounts would impose a unique dynamic on account balances — one that does not apply to

[3] *See* 12 U.S.C. § 5901(23).

interest-yielding balances in full Master Accounts — that the Board would need to account for in setting monetary policy.

Payment of threshold interest on Payment Account balances would help dampen this procyclicality by reducing the opportunity cost of holding a Payment Account balance in higher-rate environments as compared to near-zero rate environments. This would ensure that account holders’ behavior is more stable across cycles and that Payment Accounts’ effect on the Federal Reserve's balance sheet in different rate environments is less divergent from the more predictable and already-established effect of full Master Accounts. We do not suggest that a threshold interest rate would eliminate all cyclical or precautionary demand for Payment Account balances. During periods of acute market stress, demand for the safety of central bank money may rise regardless of yield. However, this is precisely the scenario for which the Closing Balance Limit is designed to serve as the binding constraint, as the Board itself explains.

A threshold interest rate would not undermine the Federal Reserve’s ability to establish safeguards with respect to Payment Accounts.

Even supposing the payment of threshold interest, the Closing Balance Limit term of the Payment Account — which would be tailored to the specific business needs of an eligible institution — would continue to serve as a binding, hard constraint on any individual institution's potential impact on the Federal Reserve’s balance sheet, the maximum extent of which is readily evident in the terms extended to each account holder. This certainty stands in contrast to the "difficult to assess" indirect balance-sheet effects the Board has already acknowledged, which flow from behavioral distortions described above that a threshold rate would reduce.

The Board has clear statutory authority to pay interest in this tailored manner. Section 19(b)(12) of the Federal Reserve Act permits, but does not require, the payment of interest on balances at Reserve Banks, and imposes no requirement that the same rate be paid to all eligible institutions or on all balances of an eligible institution. The Board is therefore free to pay a below-IORB rate on a threshold portion of Payment Account balances. A threshold structure is thus not only sound as a matter of policy but fully within the Board's discretion.