

Guidelines for Evaluating Joint Account Requests

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The Board of Governors of the Federal Reserve System (Board) has adopted six principles and corresponding considerations (collectively, the guidelines) to be used in evaluating requests to the Federal Reserve Banks (Reserve Banks) for joint accounts intended to facilitate settlement between and among member banks and other eligible depository institutions (collectively depository institutions) participating in private-sector payment systems (private-sector arrangements).

For purposes of these guidelines, a joint account is an account at a Reserve Bank where the rights and liabilities are shared among multiple account holders (joint account holders), that is, institutions that are eligible to open an account with a Reserve Bank. The Board contemplates that under these arrangements, the joint account holders will authorize a single entity to serve as their “agent” in providing instructions to the Reserve Bank at which the account would be held (the account-holding Reserve Bank) with respect to the account. The account-holding Reserve Bank would be authorized to act on any instruction provided by the agent, consistent with the provisions of the joint account agreement. The Board also contemplates that private-sector arrangements using joint accounts might also use an “operator” (which could be the agent of the joint account or a separate entity) for running the arrangement, which may include undertaking various steps in the payments process such as initiation, clearing, settlement, and reconciliation, or establishing rules and governance. “Participants” in the arrangement might include joint account holders, as well as other depository institutions and nondepository institutions that are directly part of the payment system established by the private-sector arrangement.

The guidelines broadly outline considerations necessary for evaluating requests, but are not intended to provide assurance that any specific arrangement would be granted a joint account. Every request will be evaluated on a case-by-case basis, with the type and extent of information necessary to evaluate a particular request likely dependent on the complexity of the arrangement. The guidelines apply to both domestic private-sector arrangements and foreign clearing or settlement arrangements. In the event that a request is received related to a foreign clearing or settlement arrangement, the level of scrutiny and information necessary may vary from domestic arrangements.

In addition to the evaluation under the guidelines, the account agreement with the account-holding Reserve Bank may include (at the time of account opening or any time thereafter) obligations relating to, or conditions or limitations on, use of the joint account as necessary to limit operational, credit, legal, or reputational risks posed to the Reserve Banks. The account agreement may also impose obligations relating to, or conditions or limitations on, use of the joint account to limit risks to financial stability and the implementation of monetary policy, as well as other risks that may arise. Obligations, limitations or conditions to limit risks to financial stability, the implementation of monetary policy, or other risks that may arise would be used only as deemed necessary and may include, for example, limits on the level or volatility of account balances and requirements for information on projected balances or volatility of balances. An information requirement might include a notice period within which the agent must notify the account-holding Reserve Bank of shifts in the end-of-day account balances greater than a designated threshold. If the obligations, limitations, or controls are ineffective at mitigating the risks identified or if the obligations, limitations, or controls are breached, the

account agreement with the account-holding Reserve Bank might be restricted further or the joint account may be closed if warranted.

Establishment of a joint account by the Reserve Banks under these guidelines does not relieve any participant in the private-sector arrangement or any end user from conducting its own diligence on the arrangement generally, on any associated risks of using the payment system established by the private-sector arrangement, or on the acceptability of such risks. Establishment of a joint account by the Reserve Banks under these guidelines is not an endorsement or approval by the Board or Reserve Banks (collectively the Federal Reserve) of the payment system established by the private-sector arrangement. Moreover, nothing in the Board's guidelines relieves any institution from compliance with obligations imposed by an institution's supervisor.

The following will be used in evaluating requests to the Reserve Banks for joint accounts intended to facilitate settlement between depository institutions participating in private-sector arrangements:

- 1. Each joint account holder must meet all applicable legal requirements to have a Federal Reserve account, and the Reserve Bank will not have any obligation to any non-account holder with respect to the balance in and operation of the account.*
 - Only an institution that is eligible to have a Federal Reserve account under applicable federal statute and Federal Reserve rules, policies, and procedures is able to be a joint account holder. Unless otherwise specified by statute, only those entities that are member banks or meet the definition of a depository institution under section 19(b) of the Federal Reserve Act are legally able to obtain Federal Reserve accounts and payment services.¹
 - As part of evaluating any joint account requests, and consistent with Federal Reserve policies and procedures, the account-holding Reserve Bank must approve all joint account holders that are part of a proposed private-sector arrangement. Some institutions may be eligible for a Federal Reserve account but may present atypical risk profiles, such as uninsured institutions. In these cases, a heightened analysis of that institution's participation as a joint account holder may be performed under one or more of the other guidelines.
 - The designated agent or operator of the private-sector arrangement would not need to be a depository institution, assuming it is not a joint account holder.
 - Consistent with the Reserve Banks' deposit-taking authority, a Reserve Bank's obligation with respect to any balance in a joint account will be owed solely to the joint account holders, and no non-account holders may have any rights against the Reserve Bank with respect to the balance. No party other than an account holder shall have a claim against the account-

¹ There are certain statutory provisions allowing Reserve Banks to act as a depository and fiscal agent for the Treasury and certain government-sponsored entities (*See i.e.* 12 U.S.C. 391, 393-95, 1823, 1435) as well as for certain international organizations (*See i.e.* 22 U.S.C. sections 285d, 286d, 290o-3, 290i-5, 290l-3). In addition, Reserve Banks are authorized to offer deposit accounts to designated financial market utilities (12 U.S.C. 5465), Edge and Agreement corporations (12 U.S.C. 601-604a, 611-631), branches or agencies of foreign banks (12 U.S.C. 347d), and foreign banks and foreign states (12 U.S.C. 358).

holding Reserve Bank in connection with the operation of the joint account, including any decision related to opening or refusing to open the account.

2. *The private-sector arrangement should demonstrate that it has a well-founded, clear, transparent, and enforceable legal basis in all aspects of its proposed arrangement.*

- Requestors of a joint account should provide supporting legal analysis as well as the system's rules, agreements, and other governing documents. The legal analysis should consider the application of applicable laws and regulations, such as U.C.C. 4A, the Electronic Funds Transfer Act, U.S. sanction programs, Bank Secrecy Act and anti-money-laundering requirements or regulations, and other relevant laws and regulations; the attachment risk related to the account; and how the operation of the account would be affected by a participant's insolvency.

3. *The design and rules of the private-sector arrangement should be consistent with the Federal Reserve's policy objectives to promote a safe, efficient, and accessible payment system for U.S. dollar transactions.*

- In addition to any party's supervisory obligations, a private-sector arrangement that uses a joint account approved under these guidelines will be expected to manage risks consistent with the general policy expectations for payment systems outlined within Part I of the Board's *Federal Reserve Policy on Payment System Risk* (PSR Policy) at a minimum.² These policy expectations apply even if the private-sector arrangement is not otherwise subject to the PSR Policy.³ Thus, before authorizing the establishment of a joint account, the private-sector arrangement would be expected to demonstrate that it has a general risk-management framework appropriate for the risks the system poses to the operator, agent, participants, the Reserve Bank granting the joint account, and other relevant parties and payment systems.
- The private-sector arrangement should have policies and procedures to minimize disruption to its system when one of its participants, the agent, or the operator fails or in the event of operational failures. The arrangement's rules should also sufficiently address the responsibilities and liabilities of the participants, agent, and operator in cases of operational disruption, or erroneous or fraudulent conduct.

² As of the date of publication of the final guidelines, those expectations are identified in Part I, section C of the PSR Policy, "General policy expectations for other payment systems within the scope of the policy" (as amended effective September 23, 2016). The PSR Policy is available at

https://www.federalreserve.gov/paymentsystems/files/psr_policy.pdf.

³ The Board's PSR Policy sets forth standards regarding the management of risks that financial market infrastructures (FMIs) present to the financial system when an FMI expects to settle a daily aggregate gross value of \$5 billion on a given day and when providing accounts and services to FMIs. Generally, FMIs are multilateral systems among participating financial institutions, including the system operator, used for the purposes of clearing, settling, or recording payments, securities, or other financial transactions. For the purposes of a system that uses a joint account to facilitate settlement, the standards would be applicable regardless of the daily aggregate gross value in a given day.

- Requests for joint accounts involving a financially unsound operator would not be approved. Evaluation may include, among other things, reviewing financial statements of the operator, as well as cash flow projections (including capital and operating expenses).
 - Evaluation under this principle will take into account the applicable supervisory framework for the private-sector arrangement.⁴ The payment system established by a private-sector arrangement (including the operator) should be subject to federal or state supervision and should also be subject to the jurisdiction of a federal banking agency with the authority to examine or inspect the private-sector arrangement and take supervisory actions against the arrangement or its participants.⁵ This means for a payment system established by a private-sector arrangement and supervised by a state regulatory body, a federal banking agency need not be engaging in active supervision or examination, but should have the authority to do so when the risk, scope, and operations call for such supervision or examination. For example, under the Bank Service Company Act, federal banking agencies have the authority to examine third-party service providers that perform services for depository institutions that the depository institution could otherwise do itself.
 - An evaluation under this principle would assess whether the system is widely available for use by its intended end users, is designed to minimize the risk of disruption (rejection or delay of payments) to end users, and promotes transparency for end users and the public more broadly (for example, by making its operating rules, rulemaking processes, list of participants, or certain network statistics publicly available). Evaluation under this guideline would also assess whether the system creates inefficiencies in payment processes or barriers to interoperability within the U.S. dollar payment system. Also of relevance is whether the private-sector arrangement promotes payment system improvements and innovations and the extent to which the arrangement fosters competition in the payment system (for example between providers of payment services).
 - Finally, the design and rules of the private-sector arrangement, including rules relating to the funding of and disbursements from the joint account, should be consistent with the intended use of the account, such that a participant can only use the balances for the intended purpose of settling payments in the associated system.
4. *The provision of the joint account should not create undue credit, settlement, or other risks to the Reserve Banks.*
- The agent and the joint account holders should demonstrate an ongoing

⁴ Nothing in the Board’s guidelines should be interpreted to relieve any participant in the private-sector arrangement from compliance with obligations imposed by an institution’s supervisor, including for example related to financial resources, liquidity, participant default management, and other aspects of risk management.

⁵ A federal banking agency would include the Board; the Federal Deposit Insurance Corporation (FDIC); and the Office of the Comptroller of the Currency (OCC).

ability to meet all obligations under the joint account agreement with the account-holding Reserve Bank.

- The manner in which the joint account will be used in support of the private-sector arrangement and any anticipated use of Reserve Bank services should be identified.
- Reserve Banks will not extend overnight or intraday credit to a joint account. The private-sector arrangement should structure its use of the joint account and Reserve Bank services in a manner that seeks to avoid intraday overdrafts. The agent also should demonstrate ways to monitor the joint account on an ongoing basis to avoid overdrafts and to promptly cover any inadvertent overdrafts.
- Further, the agent should demonstrate the ability to appropriately monitor transactions into and out of the joint account.

5. The provision of a joint account should not create undue risk to the overall payment system.

- The private-sector arrangement should not cause undue credit, settlement, or other risks to the efficient operation of other payment systems or the payment system as a whole.
- The operational and financial interaction with and use of other payment systems should be identified.
- The extent to which the use of the joint account may restrict a portion of funds from being available to support liquidity needs of depository institutions for other payment and settlement activity will also be considered.

6. The provision of a joint account should not adversely affect monetary policy operations.

- Evaluation of the potential monetary policy implications of the use of a joint account will include whether the balance in the joint account would be treated as reserves (that is, treated as available to satisfy any joint account holder's reserve balance requirements or as excess reserves), the expected predictability and volatility of the end-of-day joint account balances, and the potential for the account agreement with the account-holding Reserve Bank to impose limitations on account volatility without affecting the intended function of the arrangement. This evaluation will occur regardless of the current monetary policy implementation framework in place.