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INSIGHT

Federal Reserve: "Skinny" Master Account Proposal

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Banks, which are at the center of the payment system, can directly settle payments through master accounts held at the Federal Reserve (Fed). In recent years, crypto and fintech firms have applied for master accounts, sometimes experiencing rejection or relatively long waits for approval. For more information, see CRS Insight IN12031, *Federal Reserve: Master Accounts and the Payment System*.

In response, the Fed proposed to create a limited payment master account with an expedited approval process in May 2026, which Fed Governor Christopher Waller has called a "skinny" master account.

Background

Master accounts allow holders to directly access the payment system. Legal eligibility is limited to firms with bank charters and a few other select institutions. Nonbank payment firms could benefit from lower costs or faster and more efficient settlement if they held master accounts instead of partnering with banks that do. An increase in nontraditional applicants for master accounts, such as fintech and crypto firms, has led to greater scrutiny of who should receive access.

The application process has been slow or unsuccessful for nontraditional firms. Although the Fed is the gatekeeper for access to its wholesale payment and settlement services, operation of those services does not provide it with regulatory jurisdiction over firms with access. Thus, the Fed does not want access to be based on legal eligibility alone.

Some crypto firms have received trust or other special purpose charters from the Office of the Comptroller of the Currency (OCC) or state bank regulators, such as a special purpose depository institution (SPDI) charter from the State of Wyoming. In December 2025, the OCC conditionally approved (non-depository) trust bank charters to five firms offering crypto services, including Paxos, Circle, and Ripple. Legal eligibility for a master account is one incentive to seek a bank charter.

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2022 Guidance

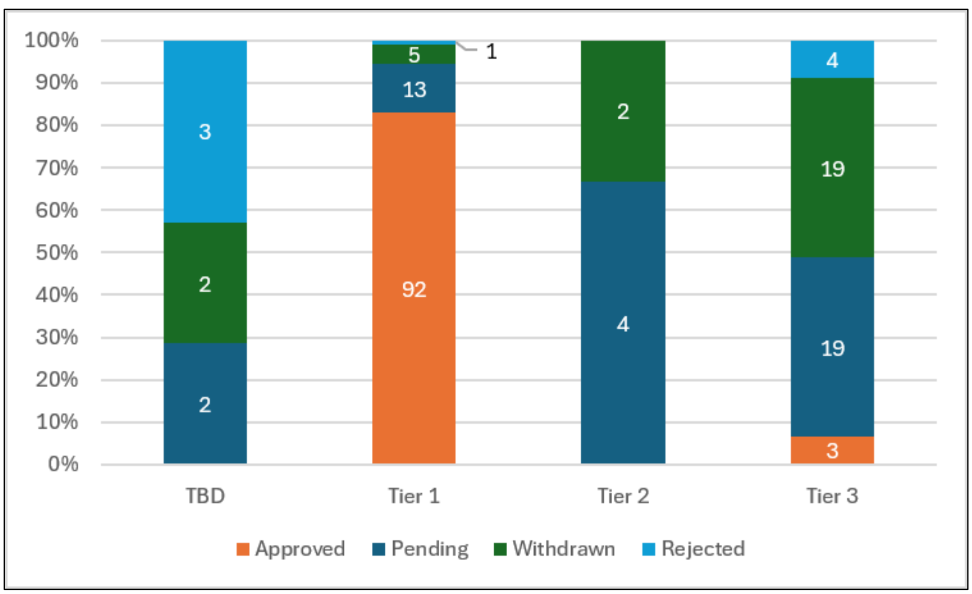
The Fed issued final guidance in August 2022 explaining how it would evaluate master account applications: If legally eligible, applicants can expect to be approved if they would not create undue risk for the Fed, the overall payment system, financial stability, or monetary policy, or facilitate illicit activity. To account for potential risk, the final guidance states that applicants that are federally insured depository institutions (Tier 1 applicants) receive the least scrutiny, institutions that are not federally insured but are subject to prudential supervision by federal banking agencies or have Fed-supervised holding companies (Tier 2) receive more scrutiny, and eligible institutions that are not federally insured and are not subject to federal bank supervision but have state or federal charters (Tier 3) receive the most scrutiny.

Account Holders and Applicants

In the 117th Congress, P.L. 117-263 required the Fed to publicly disclose institutions (excluding official institutions) that have requested, been rejected for, or been granted master accounts. The Fed maintains a public database to comply with this law. From December 2022 to May 2026, three Tier 3 applicants received a master account, and no Tier 2 applicants were approved (see **Figure 1**). About half of Tier 3 applicants withdrew their applications or were rejected, and several have pending applications—in some cases for several years. Custodia, a crypto-focused Wyoming SPDI, sued the Fed for rejecting its membership and master account applications. Custodia lost its case and was denied a rehearing in March 2026.

Figure 1. Status of Applications Submitted for Master Accounts

12/23/2022-5/31/2026

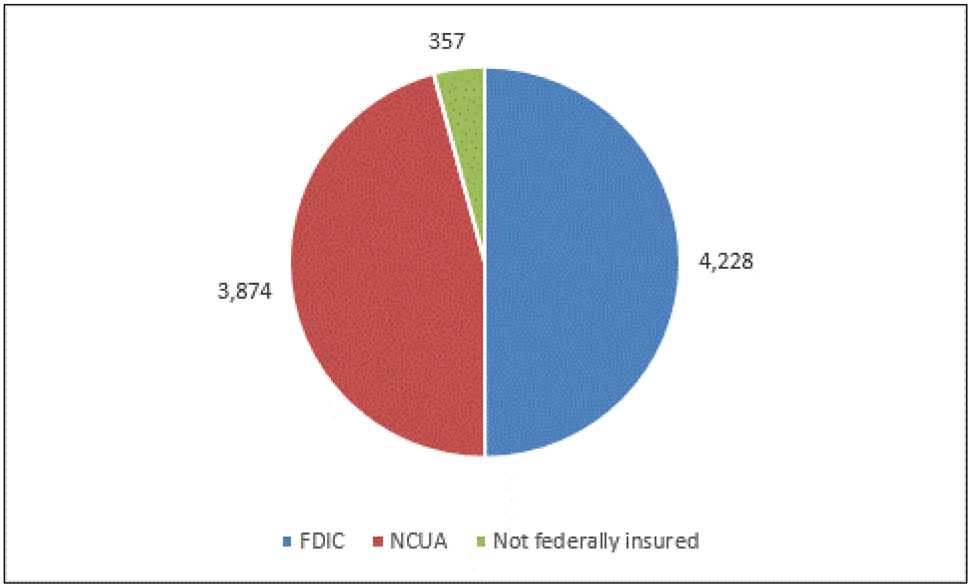


Source: CRS calculations of Federal Reserve data.

As shown in **Figure 2**, 357 institutions without federal deposit insurance currently have master accounts, or 4% of all account holders. They are mostly foreign banks or state credit unions.

Figure 2. Federal Deposit Insurer of Current Master Account Holders

May 31, 2026



Source: CRS calculations of Federal Reserve data.

Notes: Commercial banks are insured by the Federal Deposit Insurance Corporation (FDIC); federal and most state credit unions are insured by the National Credit Union Administration (NCUA).

Skinny Account Proposal

Following a request for information, in May 2026 the Fed proposed to create a limited payment or "skinny" master account. Under the proposal, the limited accounts would feature streamlined approval (typically within 90 days) compared to the lengthy process that nontraditional applicants have experienced. The proposal would not seek to modify or expand legal eligibility for master accounts. The proposed account would grant a holder direct access to Fed-run payment systems, conferring the benefits described above. Unlike traditional master accounts, the proposed account would not pay interest and would not provide access to the Fed's cash, check, or automated clearinghouse (ACH) services.

With the proposal, the Fed appears to view the benefits of granting direct access to the payment system to firms that are not engaged in traditional banking but have received bank charters to outweigh the risks to the Fed, payment system, and broader financial system. The banking industry and critics of crypto argue that access for nontraditional firms is inappropriate. Risk is inherent in any access to the payment system, but some of this risk can be reduced by limiting the features of the master account. For example, under the proposal, a skinny account would face a balance limit and would not get access to the Fed's discount window or intraday credit for overdrafts. The proposed rule would not impose any additional anti-money laundering (AML) requirements on skinny account holders, but the Fed would have discretion to periodically require the account holder to provide the Fed with information confirming its AML compliance. In his dissenting vote, Fed Governor Michael Barr stated that the proposal did not sufficiently provide safeguards against money laundering and terrorist financing facilitated by account holders.

Before the skinny account proposal was issued, the Fed granted the crypto firm Kraken, a Wyoming SPDI, a 12-month pilot limited master account in March 2026. Fed Vice Chair Michelle Bowman characterized the pilot as an opportunity for the Fed to test and learn. The Bank Policy Institute argued that the pilot "front-runs the Board's public comment process and violates the Board's own policy on seeking public comment when it intends to make significant changes to the payments system."

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