



FEDERAL RESERVE BANK  
OF DALLAS

WILLIAM H. WALLACE  
FIRST VICE PRESIDENT

July 15, 1986

DALLAS, TEXAS 75222

Circular 86-63

**TO:** The Chief Operations Officer  
of all depository institutions  
in the Eleventh District

**SUBJECT**

**Request for public comment on proposals to provide third party  
payment information over Fedwire in a standard format**

**DETAILS**

The Federal Reserve Board has published for comment a proposal to provide third party payment information over Fedwire in a standard format.

Comment is requested by August 11, 1986.

The current Fedwire format used by most depository institutions for third-party payments is not machine readable. Thus, depository institutions receiving the information must frequently review the payment information manually in order to post the payments to customers' accounts.

Under the Board's proposal, third party information would be identified by using standard three-character identifiers for each field of information such as the identity of the depository institution's customer and the purpose of the payment. Reserve Banks would impose a \$0.25 surcharge to institutions originating Fedwire messages in nonstandard formats, as of January 1, 1988. In addition, the standard format would become mandatory for Fedwire payments on January 1, 1989.

To assist depository institutions, Reserve Banks would provide them with detailed specifications regarding the format standard. This proposal would give institutions more than a year to modify their internal operating systems before a surcharge is imposed for nonstandard messages and more than two years before the standard formats are required.

**ATTACHMENTS**

A copy of the Federal Register document is attached.

**MORE INFORMATION**

For further information, please contact Jonnie K. Miller at (214) 651-6290 or Larry Ripley at (214) 651-6118.

Sincerely yours,

*William H. Wallace*

FEDERAL RESERVE SYSTEM

(Document No. R-0575)

FORMAT FOR WIRE TRANSFER OF FUNDS

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Proposed rule; request for comment.

SUMMARY: The Board of Governors of the Federal Reserve System ("Board") is requesting comments on a proposed two-part program to require depository institutions sending funds transfers over Fedwire to provide third-party payments information in a structured message format.<sup>1/</sup> Specifically, a two-phased program is proposed which would involve:

1. A higher price for messages not conforming to the standard format beginning January 1, 1988, as an incentive to encourage use of the format; and
2. Mandatory use of the standard message format beginning January 1, 1989.

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<sup>1/</sup> For complete information on funds transfer data elements and formatting conventions, refer to Developing a More Efficient Fund Transfer Service : Phase II: Network Formatting Convention and Inter-Network Conversion Rules, American Bankers Association, Revised edition, April 1985. Parties interested in receiving detailed technical information on edits planned for the standard format should contact their local Federal Reserve Bank.

DATE: Comments on the proposal should be submitted no later than August 11, 1986.

ADDRESS: Interested parties are invited to submit written data, views and other comments to William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, NW, Washington, DC 20551, or to deliver such comments to the guard station in the Eccles Building Courtyard on 20th Street, NW (between Constitution Avenue and C Street, NW). Written comments should refer to Docket No. R-0575. Comments received may be inspected in Room B-1122 between 8:45 a.m. and 5:15 p.m.. except as provided in section 261.6(a) of the Board's Rules Regarding Availability of Information. (12 C.F.R. 261.6(a))

FOR FURTHER INFORMATION CONTACT: Julius F. Oreska, Manager, (202/452-3878) or Peggy Weimer, Senior Analyst, Division of Federal Reserve Bank Operations (202/452-3341); Elaine Boutilier, Attorney, Legal Division (202/452-2418); or Telecommunications Device for the Deaf ("TDD") users, Earnestine Hill or Dorothea Thompson (202/452-3544), Board of Governors of the Federal Reserve System, Washington, DC 20551.

SUPPLEMENTARY INFORMATION: The current Fedwire format for funds transfer messages consists of two parts. The first part contains precisely structured information that identifies the sending and receiving depository institution and the dollar amount of the transfer. The second part of the message contains information in an unstructured form about the customers of the depository institutions involved in the transfer and the purpose of the transfer.

The lack of structure in the second part of the message requires depository institutions receiving the messages to review the payment instructions manually in order to post the payments to the customers' accounts. This manual processing can be error prone, time-consuming, and costly. In addition, the inability of depository institutions to process the incoming wires in an automated fashion has caused some problems in monitoring customer account balances under the Board's risk reduction program for large-dollar transfers.

The operating difficulties associated with the unstructured payment instructions in Fedwire messages led the American Bankers Association (ABA) to undertake a study of funds transfer formats in the early 1980's. In 1982, the ABA issued a report that recommended a format convention for Fedwire third-party payments. The convention requires that the third-party information, that is, customer information,

be identified using standard three character identifiers for each field of information. Use of these identifiers or field tags is intended to facilitate the automated handling of Fedwire funds transfers.

The Federal Reserve has supported this convention since it was introduced. Unfortunately, less than 11 percent of third-party messages processed on Fedwire are in the structured form. The Board believes that this limited use is primarily because of the lack of incentives on Fedwire to encourage institutions to make the necessary changes to their systems in order to begin processing payments using the ABA convention.

The ABA convention has the potential of even greater benefits to institutions as a result of the Board's policy to reduce risks in large-dollar transfer systems which requires depository institutions to manage their payments system risks. To do this, an institution must not only manage its own position on each payments system and across all payments systems, it must also manage its customer's position. The Board's policy statement (50 Fed. Reg. 21120, May 22, 1985) states that each institution should have the capability of monitoring the effect of all significant transactions on the funds positions of customers as the transactions occur during the business day. This capability is difficult to attain without automation of posting a

transfer to a customer's account. Consequently, receiving institutions of funds transfers need a higher level of service than is now available. The proposed program would improve the funds transfer service to facilitate monitoring customers' intra-day funds positions.

If the potential benefits of a structured Fedwire message are to be realized, the Board believes that the Federal Reserve should more actively support its use. A program has been developed to accomplish this objective. In the first part of the program, which would begin on January 1, 1988, a surcharge of 25 cents over the automated transfer fee (currently 55 cents) would be charged to the sender of a message that contains unstructured third-party information. <sup>2/</sup> Senders of structured third-party messages would be charged the regular on-line funds transfer fee.

Beginning in January 1989, the Board proposes to make the structured third-party message mandatory. By then, the

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<sup>2/</sup> This proposal is consistent with pricing principle number 7, adopted by the Board in 1981. (46 Fed. Reg. 1338). This principle states in part: "The structure of fees and service arrangements may be designed both to improve the efficient utilization of Federal Reserve services and to reflect desirable longer-run improvements in the nation's payments system."

depository institutions will have had over two years to prepare for the change. Mandated use would be enforced by rejecting immediately back to the sender any third-party transfer messages that do not conform to the required format. If a transfer were rejected, the sending institution would be able to complete the transfer by originating a reformatted transfer or requesting the transfer through the Federal Reserve's off-line operation.

The phased implementation of the structured third-party message as the Fedwire standard should provide depository institutions sufficient time to modify their software and adjust their operations to the new requirement. By the third quarter of 1986, the Reserve Banks expect to provide detailed software specifications to depository institutions using computer-to-computer interfaces and to the software vendors that support such institutions. In addition, the Reserve Banks would assist institutions using personal computer to implement structured Fedwire transfers.

The Board is requesting comments from interested parties on all aspects of this proposal. The Board specifically solicits comments on whether depository institutions can make the necessary software modifications by January 1988.

The Board is also interested in the public's views on whether Fedwire should offer a special service to facilitate the inclusion of customer account information in funds transfer messages. In concept, such a service may be similar to the universal identification service offered on the CHIPS network, i.e., insertion of the correct customer account number when the sending institution did not have this information. The Board is interested in the public's views on the benefits of such a service; how it might be structured to satisfy their business needs, and whether such a service is consistent with privacy considerations.

Finally, the Federal Reserve is studying electronic payment formats to determine whether additional changes should be made. This study will include a review of all industry standards and will focus on how the needs of users of electronic payment services can best be met. In connection with this study, the Board is interested in receiving comments from the public on any electronic payment format changes they feel are necessary.

By order of the Board of Governors of the Federal Reserve System, June 5, 1986.

(signed) William W. Wiles

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William W. Wiles  
Secretary