



FEDERAL RESERVE BANK
OF DALLAS

WILLIAM H. WALLACE
FIRST VICE PRESIDENT
AND CHIEF OPERATING OFFICER

March 31, 1987

DALLAS, TEXAS 75222

Circular 87-24

TO: The Chief Executive Officer of
all financial institutions in the
Eleventh Federal Reserve District

SUBJECT

**Announcement of Board of Governor's approval of standard formats for
third-party payment information over Fedwire**

DETAILS

The Federal Reserve Board has announced its approval of a two-part program to require financial institutions sending funds transfers over Fedwire to provide third-party payment information in a structured message format.

The policy will be implemented in two phases. Effective April 1, 1988, a 25 cent surcharge will be assessed to originators for each funds transfer message that does not conform with the structured format requirements. On April 3, 1989, the surcharge will be eliminated and unstructured messages will be rejected and returned to originators.

The proposal was in response to a request from the American Bankers Association recommending establishment of a standard format for Fedwire third-party payments. The current Fedwire format for a funds transfer message consists of two parts. The first part contains precisely structured information that identifies the sending and receiving institutions and the dollar amount of the transfer. The second part of the message contains information in an unstructured form about the customers of the institution involved in the transfer and the purpose of the transfer. The lack of structure in the second part of the message requires institutions receiving the messages to review payments instructions manually in order to post the payments to the proper account.

Comments received by the Board in connection with this proposal were generally supportive. One reason given by commenters in favor of the proposal was that use of the standard format would facilitate timely processing and posting of funds transfer messages, regardless of the institution's size or whether the posting was done automatically or manually.

Necessary software modifications to implement the new system will be completed by the Dallas Fed during the third quarter of 1987. This schedule should provide ample time for financial institutions to become familiar with the system and the structured format requirements. Information on the exact procedures to use when sending third-party transfers will be distributed as soon as it is available.

ATTACHMENT

The Board's notice is attached for your review.

MORE INFORMATION

For more information on this topic, please contact Mr. Larry Ripley at (214) 651-6118 or Ms. Jonnie Miller at (214) 651-6290.

Sincerely yours,

William H. Wallace

[Docket No. R-0575]

Format for Wire Transfer of Funds

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Approval of format for wire transfer of funds.

SUMMARY: The Board of Governors of the Federal Reserve System ("Board") has approved a two-part program to require depository institutions sending funds transfers over Fedwire to provide third-party payments information in a structured message format. Specifically, a two-phased program has been approved which involves:

(1) A \$0.25 surcharge for Fedwire funds transfers not conforming to a standard format, beginning April 1, 1988; and

(2) Mandatory use of the standard message format beginning April 3, 1989.

EFFECTIVE DATES: Phase one (surcharge, effective April 1, 1988; Phase two (mandatory use), effective April 3, 1989.

FOR FURTHER INFORMATION CONTACT: Julius F. Oreska, Manager, (202/452-3878) or Peggy Weimer, Senior Analyst, Division of Federal Reserve Bank Operations (202/452-3544); 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: On June 6, 1986, the Board issued for public comment a proposal to encourage use of a structured format for transmission of third-party payment information over Fedwire. (51 FR 21246, June 11, 1986) It was proposed that implementation of the standard Fedwire format would be phased in over a two-year period. Beginning in January 1988, a \$0.25 surcharge would be assessed for each message that did not conform to the standard format. The standard format would become mandatory for Fedwire payments in January 1989, with nonconforming messages being rejected and returned to originators.

Background

The current Fedwire format for a funds transfer message 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 institution 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 payment instructions manually in order to post the payments to the customers' accounts.

In 1982, the American Bankers Association issued a report that recommended a format convention for Fedwire third-party payments. The convention requires that the third-party information be identified using standard three character identifiers, called field tags, for each field of information and that the fields of information be provided in a specific sequence. Although the Federal Reserve has supported this convention since its introduction, less than 11 percent of third-party messages processed on Fedwire are in the structured form.

Comments

Seventy-four comments were received in response to the request for public comment. Of the seventy comments which addressed the proposal, 58 supported the concept or parts of the concept, while 12 respondents opposed it.

One reason given by commenters in favor of the proposal was that use of the standard format would facilitate timely processing and posting of funds transfer messages, regardless of the institution's size or whether the posting was done automatically or manually. Some commenters believed that the use of standardized field tags to designate third-party information would enhance risk reduction efforts by facilitating more timely monitoring of customer accounts. In addition, some commenters stated that implementation of the proposal would allow institutions to reduce delays, errors, and uncertainties associated with messages received in the present free text format.

Reasons given by commenters for opposition to the proposal included: The current method of processing Fedwire payments was not time consuming, costly, or error-prone; the proposal would not facilitate timely or accurate posting of funds transfers; and the

proposal catered to the needs of the large depository institutions.

Mandatory usage of the standard format beginning January 1, 1989, was supported by all but one of the commenters, but fifteen respondents commented on the unresolved status of a transferee depository institution's legal liability related to posting of a transfer on the basis of an account number rather than on the basis of account name. To realize the full benefits of the format by automatically posting payments to customers' accounts, these commenters suggested that certain legal questions concerning reliance on account numbers when posting transactions could be clarified by the Federal Reserve. This is a separate issue from standardizing the Fedwire format, and it will be studied further by the Board. The effectiveness of this proposal is not negated by failure to achieve immediate resolution of this legal issue.

Several commenters questioned the equity of the proposal that the Federal Reserve would provide software support to institutions with personal computer connections to the Reserve Banks.¹ These commenters believed that the personal computer ("PC") software modification should not be provided without charge to the institutions with PC connections to Fedwire, if the large computer interface ("CI") institutions were required to pay for their own software changes.

The Federal Reserve had three options available for handling the issue of providing software support to depository institutions. One option was not to provide software support to any institutions. This option, although equitable, would not foster use of the structured format, especially by small and medium size institutions who do not have the capacity to develop their own software. A second option was to provide application software to institutions with PC connections and those with CI connections. Due to the variety of software used by the CI banks it is impractical for the Reserve Banks to meet the software needs of the CI institutions. In addition, the CI institutions are much more capable of making the software changes needed to use the structured format. The third option, and the one the Board adopted,

was to provide software to institutions with PC connections and technical advice to assist the CI institutions. Besides benefiting small- and medium-sized institutions with PC connections, this option benefits large institutions through technical assistance in meeting the target requirements and by smaller institutions originating messages in the standard format. The cost of providing the software is minimal, on the order of \$175,000.

Several commenters questioned the cost basis for charging the \$0.25 surcharge for nonstandard messages. Specifically, they believe that such a charge would more than recover the Federal Reserve's development costs and would then subsidize the basic Fedwire service.

The Board believes that the surcharge is necessary to recover costs and to encourage depository institutions to expend the resources to originate payments using the standard format. The surcharge will affect only depository institutions who fail to use the standard format. While it is difficult to predict the amount of revenue that might result, it is believed that the income from the surcharge should be relatively insignificant because of the long lead time before the surcharge policy becomes effective.

Some questions were raised by commenters concerning the standard format specifications as outlined in the technical document supplied by the Reserve Banks, including the length of the message and certain required fields. Many commenters believe that certain third-party beneficiary information (e.g., beneficiary account number) should be required for receivers to achieve full automation benefits.

Those suggestions have not been adopted, because originators of transfers do not always have access to information related to the beneficiary's account. Further, since the Federal Reserve cannot edit for the accuracy of the information contained in the field, the sending institution may include inaccurate information to pass mandatory edits. Technical constraints prohibit lengthening the Fedwire format beyond its present eight lines at the present time. Discussions with industry representatives and individual depository institutions indicate that the present eight line Fedwire format provides sufficient space for the large majority of present Fedwire payments. Optional fields included in the recommended message format can be utilized for additional text, if required by originators. Therefore, beneficiary

information will remain an optional field.

Implementation

The majority of the commenters who discussed the implementation schedule believe that the proposed schedule of January 1, 1988, for the surcharge for nonconforming messages and January 1, 1989, for mandatory usage of the standard format was reasonable. Some commenters qualified their responses, stating that their implementation readiness is dependent upon the Federal Reserve providing the detailed technical specifications by the end of the third quarter of 1986, as specified in the request for public comment. This would provide a reasonable time period to prepare for implementation.

A preliminary document detailing the technical specifications of the format was available from the Reserve Banks upon request during the comment period. As a result of questions raised by commenters, the technical specifications have undergone some minor revision to address these issues.

Final format specifications have been completed and are now available from the Reserve Banks. Since many commenters expressed concern about having ample time to implement changes, the Board has changed the implementation dates to April 1, 1988, and April 3, 1989, respectively.

For the foregoing reasons, Reserve Banks will assess a \$0.25 surcharge for all messages not conforming to the format beginning April 1, 1988. Use of the format will be mandatory beginning April 3, 1989.

By order of the Board of Governors of the Federal Reserve System, November 21, 1986.

William W. Wiles,
Secretary.

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¹ Approximately 6,300 depository institutions are electronically connected to the Fedwire network. The Reserve Banks' intelligent terminal application software is made available free of charge to the estimated 4,800 institutions with PC connections to the Fedwire network. Institutions connected to the Fedwire network pay either terminal leasing fees or, if they own their terminals, electronic connection fees.