



FEDERAL RESERVE BANK  
OF DALLAS

WILLIAM H. WALLACE  
FIRST VICE PRESIDENT  
AND CHIEF OPERATING OFFICER

May 21, 1990

DALLAS, TEXAS 75222

Circular 90-31

TO: The Chief Operating Officer of  
each financial institution in the  
Eleventh Federal Reserve District

SUBJECT

Request for public comment on proposals to require telephone  
notification to offline receiving institutions of incoming  
transfers of funds

DETAILS

The Federal Reserve Board of Governors has issued for public comment a proposal that the Federal Reserve Banks notify by telephone all offline financial institutions of the receipt of incoming Fedwire funds transfers.

The proposed service would apply to all third-party funds transfers and would also apply to settlement transfers if the receiving institution acts as a correspondent for a respondent institution.

Telephone notice of settlement transfers to a receiving institution that does not maintain accounts for respondent institutions would continue to be an optional service. The fee for this service currently consists of a \$4.00 per transfer surcharge in addition to the basic transfer fee and is charged to the offline receiving institution.

Comment is requested by July 3, 1990. The proposed service would become effective January 1, 1991.

ATTACHMENTS

The Board's press release providing the specifics of the proposal is attached.

MORE INFORMATION

For more information, please contact Jonnie Miller at (214) 651-6290, Vinton Myers at (214) 698-4349, or Larry Ripley at (214) 651-6118.

Sincerely yours,

*William H. Wallace*

# FEDERAL RESERVE press release



For immediate release

April 30, 1990

The Federal Reserve Board today issued for public comment a proposal that the Federal Reserve Banks notify by telephone all off-line depository institutions of the receipt of incoming Fedwire funds transfers.

Comment is requested by July 3, 1990.

The proposed service would apply to all third-party funds transfers and would also apply to settlement transfers if the receiving institution acts as a correspondent for a respondent institution.

Telephone notice of settlement transfers to a receiving institution that does not maintain accounts for respondent institutions would continue to be an optional service. The fee for this service currently consists of a \$4 surcharge per transfer in addition to the basic transfer fee and is charged to the off-line receiving institution.

The proposed service would become effective January 1, 1991.

The Board's notice is attached.

-0-

Attachment

**FEDERAL RESERVE SYSTEM**  
**(Docket R-0690)**  
**Federal Reserve Bank Services**

**AGENCY:** Board of Governors of the Federal Reserve System.

**ACTION:** Request for comment.

**SUMMARY:** The Board is requesting comment on a proposal that Reserve Banks notify telephonically all depository institutions that do not have an electronic connection to Fedwire ("off-line institutions") of the receipt of incoming Fedwire funds transfers. The service would apply to all third-party funds transfers and to settlement transfers if the receiving institution acts in a correspondent capacity for a respondent institution. Telephone notice of settlement transfers to a receiving institution that does not maintain accounts for respondent institutions would continue to be an optional service. The fee for this service currently consists of a \$4.00 surcharge per transfer in addition to the basic transfer fee and is assessed to the off-line receiving institution. The Board believes that this change would facilitate the prompt crediting of beneficiaries and that notification of funds transfers received over Fedwire is consistent with the participants' expectation of Fedwire as a same-day payments system.

**DATE:** Comments must be submitted on or before July 3, 1990.

**ADDRESS:** Comments, which should refer to Docket No. R-0690, may be mailed to the Board of Governors of the Federal Reserve System, 20th and C streets, N.W., Washington, D.C. 20551,  
**Attention:** Mr. William W. Wiles, Secretary; or may be delivered

to Room B-2223 between 8:45 a.m. and 5:00 p.m. All comments received at the above address will be included in the public comments file, and may be inspected in Room B-1122 between 9:00 a.m. and 5:00 p.m.

**FOR FURTHER INFORMATION CONTACT:** Louise L. Roseman, Assistant Director (202/452-3874) or Julius Oreska, Manager (202/452-3878), Division of Federal Reserve Bank Operations; for the hearing impaired only: Telecommunications Device for the Deaf, Earnestine Hill or Dorothea Thompson (202/452-3544).

**SUPPLEMENTARY INFORMATION:**

The expectation of the parties to Fedwire third-party<sup>1</sup> and settlement transfers is that payments will be completed on the same day they are initiated. On-line receivers of Fedwire funds transfers are notified electronically of all transfers received. Because off-line receivers of Fedwire funds transfers do not have an electronic connection with the Federal Reserve, notification of incoming transfers to these institutions is not necessarily made on the day of the transfer. While off-line receivers receive credit from their Reserve Bank on the day transfers are received, the depository institutions are unable to credit the beneficiary on the payment date unless they are

---

<sup>1</sup>The term "third-party" funds transfer applies to all regular funds transfers (type code 10) regardless of whether these transfers include third-party information. Transfers involving foreign accounts (type code 15) would also be subject to the telephone notice requirement.

notified on the day of receipt. Thus, from the standpoint of the beneficiary, the transfer is not complete until notice of receipt is provided. Approximately forty-five percent of institutions using Fedwire currently receive funds transfers off-line, although off-line transfers account for less than one percent of total Fedwire volume.

The Federal Reserve currently offers two optional services by which Reserve Banks provide telephone notice to off-line receivers of incoming funds transfers on the day of the transfer. These services help to ensure timely notification of incoming funds for off-line institutions, in order that they may make the funds available to their customers on a timely basis and in order to receive timely information to manage their reserve positions. If the Reserve Bank does not provide telephone notice of a transfer to an off-line institution, notification of the incoming transfer accompanies the institution's daily account statement, which is delivered either by courier or mail. Courier delivery occurs on the next business day; mail delivery usually occurs one or more days after the transfer.

The service offered to off-line receiving institutions is the "standing order" service. Under this service, the off-line receiver pays a surcharge to be notified telephonically of each incoming funds transfer. The Reserve Bank usually provides notice within one hour of receipt of the transfer. The receiving institution is assessed a surcharge per transfer (currently \$4.00) in addition to the basic transfer fee (currently \$.50).

A second service, the "immediate advice" (type code 12) service, enables the sender of the funds transfer to request that the Reserve Bank notify telephonically the off-line receiving institution of the receipt of a particular funds transfer. The sending institution identifies those transfers for which telephone notice should be made by using a specific type code. The sending institution is assessed the surcharge per transfer for this service.

The Board is requesting comment on a proposal that Reserve Banks notify telephonically all depository institutions that do not have an electronic connection to Fedwire of the receipt of incoming Fedwire funds transfers. The service would apply to all third-party funds transfers and to settlement transfers if the receiving institution acts in a correspondent capacity for a respondent institution. Telephone notice of settlement transfers to a receiving institution that does not maintain an account for another institution would continue to be an optional service. The fee for this service currently consists of a \$4.00 surcharge per transfer in addition to the basic transfer fee and is assessed to the off-line receiving institution.

The purpose of the proposed same-day notification of incoming funds transfers to receiving institutions is to promote efficiency in the payments system by providing timely information which permits prompt crediting of funds to the accounts of beneficiaries. The proposed pricing approach would assess the

cost of providing this service to the party that decides to participate on Fedwire in an off-line mode.

Both the Expedited Funds Availability Act (12 U.S.C. 4001-4010) and the recently developed Article 4A to the Uniform Commercial Code<sup>2</sup> encourage prompt funds availability and timely notification to receiving institutions and the ultimate beneficiaries. Under Section 4A-302 of Article 4A, a Reserve Bank would be required to execute funds transfers by means reasonably necessary to allow payment to the beneficiary on the payment date or as soon thereafter as is feasible. If a Reserve Bank executes a transfer in a manner that results in a delay in the payment to the beneficiary, the Reserve Bank would be liable for interest to either the originator or the beneficiary under Section 4A-305(a) of Article 4A. The comments to this section indicate that a bank that delays the execution of a transfer would generally back-value the credit to the beneficiary's bank to compensate for the delay. This is consistent with the current Reserve Bank practice of crediting an off-line receiving institution on the day of the transfer, even though the

---

<sup>2</sup>Article 4A was recently approved by the National Conference of Commissioners on Uniform State Laws and the American Law Institute. Utah, West Virginia, Colorado, and Virginia have adopted Article 4A, which will become effective in Utah on April 23, 1990, West Virginia on June 5, 1990, and in Virginia and Colorado on January 1, 1991. Article 4A has been introduced in the legislatures of at least seven other states: California, Kansas, Massachusetts, Minnesota, Nebraska, New York, and Oklahoma.

institution may not receive notice of the transfer until one or more days later. The off-line receiving institution that credits its beneficiary on a day following the transfer day should similarly be compensating its customer by paying interest for the amount of the delay. Notification to receiving banks on the transfer day would permit them to credit their customer's account on the payment day, and not have to pay compensation to their customers; this would be consistent with Article 4A's objective to ensure timely payment to the beneficiary.

Further, Regulation CC (12 CFR Part 229) requires that depository institutions make the proceeds of funds transfers available to their customers on the business day following the day the depository institution receives the transfer. Section 229.10(b) of Regulation CC defines receipt of an electronic payment as occurring when the bank receives both payment in finally collected funds and the payment instructions. Same-day notification of funds transfers would be consistent with the purpose of the Expedited Funds Availability Act to ensure prompt availability of funds.

The Board believes that off-line receiving institutions should be assessed the fee for telephone notice because their customers benefit from the more timely crediting of their account. Moreover, the decision not to establish an on-line connection with the Reserve Bank is within the control of the off-line receiving institutions, not the senders. The decision to participate in Fedwire off-line directly affects the



institution's ability to receive prompt notification. In the current environment, however, the sending institution must often incur the cost of the telephone notice service to ensure that the receiving institution receives timely notification. Thus, if the proposal is adopted, the type code 12 immediate advice service, in which the sending bank instructs the Reserve Bank to notify the receiving bank, would no longer be necessary.

The Reserve Banks would attempt to notify off-line receiving institutions by telephone on the day the transfer is received, and would impose the surcharge on all transfers for which it attempted to provide notice. In addition, a depository institution would be responsible for notifying the Reserve Bank if it maintains an account for another depository institution and thus would be subject to required telephone notice of settlement (type code 16) transfers. If the depository institution does not maintain an account for another institution, all incoming transfers would be for its account, not that of a beneficiary, and notice would not be required. An off-line institution would not be notified of incoming settlement transfers unless it indicated to the Reserve Bank that it maintained an account for another institution or it requested the optional standing order service for settlement transfers.

The Board expects some institutions subject to the telephone notice surcharge will reassess whether the off-line service continues to best meet their needs and the needs of their customers. Some off-line institutions may find it more efficient

to establish electronic connections with the Reserve Bank rather than be assessed the surcharge for each transfer received. The Board estimates that several hundred off-line institutions currently can justify the cost of installing a Fedline terminal.<sup>3</sup> In addition, the Reserve Banks are exploring lower cost electronic alternatives for providing funds transfer notification to low-volume institutions.

Competitive impact analysis. The Board recently formalized its procedures for assessing the competitive impact of changes that have a substantial effect on payments system participants.<sup>4</sup> The Board believes that this proposal will have no adverse effect on the ability of other service providers to compete effectively with the Federal Reserve in providing similar services. Specifically, the Board believes this action would have no effect on the operations of the Clearing House Interbank Payments System (CHIPS), because this system does not serve low-volume institutions and all CHIPS participants are on-line to that system. Correspondent institutions provide access to Fedwire to a number of small off-line institutions, and this

---

<sup>3</sup>Fedline refers to software provided by the Federal Reserve Banks and used by depository institutions with small and medium transfer volumes to access Federal Reserve services.

<sup>4</sup>These procedures are described in the Board's policy statement titled "The Federal Reserve in the Payments System" (55 FR 11648, March 29, 1990).

proposal does not affect the correspondents' relationship with their respondent institutions.

By order of the Board of Governors of the Federal Reserve System, April 30, 1990.

(signed) William W. Wiles

---

**William W. Wiles**  
**Secretary of the Board**

FEDERAL RESERVE BANK OF DALLAS  
STATION K  
DALLAS, TEXAS 75222

ADDRESS CORRECTION REQUESTED

BULK RATE  
U.S. POSTAGE  
**P A I D**  
DALLAS, TEXAS  
Permit No. 151