FEDWIRE
Telephone Notification to Receiving Off-Line Banks
(Effective January 1, 1991)

To All Depository Institutions in the Second
Federal Reserve District, and Others Concerned:

Following is the text of a statement issued by the Board of Governors of the Federal Reserve System:

The Federal Reserve Board has adopted a requirement that Reserve Banks notify by telephone all “off-line banks” of the receipt of incoming Fedwire third-party funds transfers and related non-value messages.

An “off-line bank” is an institution that does not have electronic access to Fedwire.

The majority of transfers to off-line banks are currently not subject to telephone notice. Without telephone notice, the off-line receiving bank is unable to credit its customer’s account on the day of the transfer.

About 45 percent of the institutions using Fedwire receive off-line transfers but these transfers account for less than 1 percent of total Fedwire volume.

The required notice would also be provided for settlement transfers and related non-value messages, if the off-line receiving bank has notified its Reserve Bank that it acts on behalf of a respondent institution. Telephone notice of incoming settlement transfers would not have to be provided to an off-line bank that does not maintain an account for another depository institution, but the off-line bank could request such notice as an optional service.

A per transfer surcharge (currently $4) will be assessed to the off-line receiving bank for each transfer for which the Reserve Bank attempted to provide telephone notice.

The new service will become effective January 1, 1991.

Printed on the following pages is an excerpt from the Federal Register of October 4, containing the text of the Board’s official notice in this matter. Additional, single copies of this circular can be obtained at this Bank (33 Liberty Street) in the Issues Division area on the first floor. Questions may be directed to Andrew Heikaus, Manager of our Funds Transfer Department (Tel. No. 212-720-5561).

E. GERALD CORRIGAN,
President.
FEDERAL RESERVE SYSTEM

[Docket No. R-0690]

Federal Reserve Bank Services

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final action.

SUMMARY: The Board is adopting a requirement that Reserve Banks notify by telephone all depository institutions that do not have electronic access to Fedwire ("off-line banks") of the receipt of incoming Fedwire third-party funds transfers, including non-value messages that are related to a transfer of funds. Notice will also be provided for settlement transfers and related non-value messages, if the off-line receiving bank has notified its Reserve Bank that it acts on behalf of a respondent institution. In addition to the basic transfer fee (currently $5.00), a surcharge per transfer (currently $4.00) will be assessed to the off-line receiving bank for each transfer for which the Reserve Bank attempted to provide telephone notice. Same-day telephone notice of incoming funds transfers to off-line banks will promote efficiency in the payments mechanism by providing timely information, which permits prompt crediting of funds to the accounts of beneficiaries.


FOR FURTHER INFORMATION CONTACT: Louise L. Roseman, Assistant Director (202/452-3874), Julius Oreska, Manager (202/452-3078), Christine G. Slater, Senior Financial Services Analyst (202/452-2539), or Sandra Scales, Financial Services Analyst (202/452-2728), 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: Parties to Fedwire funds transfers expect the completion of payments on the same day that the transfers are initiated. Fedwire participants with electronic access to the Reserve Banks receive timely electronic notice of all incoming funds transfers. Off-line banks, however, do not have an electronic connection with the Federal Reserve and are not necessarily notified on the day of the transfer. Without same-day notification, the off-line receiving bank would be unable to credit the account of its customer on the transfer date. 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 same-day telephone notice to off-line receivers of incoming funds transfers. Under the "standing order" service, the off-line receiving bank requests the telephone notice and pays a surcharge in addition to the basic transfer fee for telephone notice of each incoming funds transfer. The "immediate advice" (type code 12) service enables the sender of the funds transfer to request that the Reserve Bank notify by telephone the off-line receiving bank of a particular funds transfer upon receipt. The sending bank selects specific transfers that should receive telephone notice and pays the surcharge for each transfer selected.

These optional services, by providing the off-line banks prompt notice of incoming funds transfers, enable the banks to manage their own reserve positions. All off-line banks receive paper advices of credit of Fedwire transfers, which are delivered by courier or mail with the daily account statements. Courier delivery occurs the next business day; mail delivery usually occurs one or more days after the transfer. The paper advice of credit is the only means of notifying off-line banks of incoming Fedwire transfers for which telephone notice is not provided.

On May 4, 1990, the Board requested public comment on a proposal to notify by telephone all off-line banks of the receipt of incoming third-party funds transfers (55 FR 13758; May 4, 1990).1 Notice would also be provided for settlement transfers, if the off-line receiving bank has notified its Reserve Bank that it acts in a correspondent capacity for another bank with respect to transfers received through Fedwire. The Reserve Bank would assess a surcharge to the off-line bank on each transfer for which telephone notice was attempted. (The fee for telephone notice is currently $4.00 per transfer in addition to the basic transfer fee.)

Same-day telephone notice of incoming funds transfers to off-line banks would promote efficiency in the payments mechanism by providing timely information, which permits prompt crediting of funds to the accounts of beneficiaries. Both the recently developed Article 4A of the Uniform Commercial Code and the Expedited Funds Availability Act (12 U.S.C. 4001–4010) encourage prompt funds availability and timely notification to receiving institutions and 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 official comments to Section 4A–305 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 current Reserve Bank practice, because the Reserve Bank credits the receiving bank on the day of the transfer, even if an off-line bank does not receive notice of the transfer until one or more days later. The off-line receiving bank that credits its beneficiary on a day following the transfer day should similarly compensate its customer by paying interest on the transfer amount for the period of the delay. Notification to receiving banks on the transfer day would permit them to credit their customer's account on that 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.

Regulation CC (12 CFR part 229) requires that depository institutions make the proceeds of funds transfers available to their customers at the start of 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 the payment in finally collected funds and the payment instructions. Therefore, same-day notice of funds transfers would be consistent with the purpose of the Expedited Funds Availability Act to...
ensure prompt availability of funds.

The Board received 34 comments in response to the proposal to revise the telephone notice to off-line banks of incoming Fedwire funds transfers. The following table reflects comments by category of respondent:

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<tr>
<th>Category</th>
<th>Number of Comments</th>
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<tbody>
<tr>
<td>Commercial banks and bank holding</td>
<td>29</td>
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<tr>
<td>companies</td>
<td></td>
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<tr>
<td>Savings and loan associations</td>
<td>1</td>
</tr>
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<td>Credit unions</td>
<td>7</td>
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<tr>
<td>Trade associations</td>
<td>4</td>
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<tr>
<td>Federal Reserve Banks</td>
<td>3</td>
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Eight commenters are off-line Fedwire participants; 18 depository institution commenters have on-line access to Fedwire; and one depository institution commenter is not a direct Fedwire participant, but occasionally uses a correspondent bank for funds transfers. All but one of the commenters supported the proposal. Supporting commenters noted that adoption of the proposal would improve the efficiency of the payments mechanism, ensure compliance with the provisions of Article 4A and Regulation CC, and equitably allocate the costs to the party that benefits from the service. The dissenting commenter argued that off-line banks should not have to pay for telephone notice of incoming funds transfers.

Twenty-one commenters stated that the proposed Fedwire telephone notice service would enhance the efficiency of the payments mechanism, ensuring more timely notification of receipt of funds transfers and crediting of funds to the beneficiaries’ accounts. Several commenters indicated that the new service would improve off-line banks’ settlement and reserve account monitoring capability. Eleven commenters noted that the service would facilitate compliance with the funds availability requirements of Article 4A and Regulation CC.

Commenters generally concurred with the pricing aspects of the proposal. Thirteen commenters stated that charging the off-line receiving bank rather than the sending bank for the telephone notice was an equitable allocation of the cost of providing the service.

The Board believes that providing prompt notice for non-value Fedwire messages, which are often time-critical, would promote efficiency in the payments mechanism. Therefore, telephone notice will be provided for these messages.

Twelve commenters stated that the Board should require Fedwire participants to be electronically linked to a Reserve Bank for funds transfer service. These commenters stated that the Board should set a sunset date by which all participants would be required to have electronic access to Fedwire.

The Reserve Banks have developed and currently offer banks an intelligent terminal software product, known as FLASH-Light, which enables the Reserve Banks to transmit ACH output data electronically in a print-display format to low-volume receiving banks. To facilitate inexpensive, electronic access for Fedwire notices, the Board

4 The telephone notice service would replace the current practice of sending service messages (type code 32), in which the sending bank requests and pays for the telephone notice of a Fedwire transfer to an off-line receiving bank. Therefore submitted as type code 12 would therefore be handled in the same manner as type code 10 transfers. The Board notes that the type code 11 message format was no longer be supported as of July 1, 1981.

the Reserve Bank staff would attempt to notify the off-line bank soon after the bank opens for business on the next business day. Reserve Banks will charge off-line banks for each transfer requiring telephone notice, even if the notification attempts were unsuccessful, because the Reserve Banks would incur the costs of repeatedly trying to reach the off-line banks.

The United States League of Savings Institutions suggested that the Reserve Banks should accumulate transfers and notify the off-line banks only two or three times per day, and charge on the basis of each notification call. The Board believes that notifying off-line banks at predetermined intervals would result in less timely notice and would diminish the benefits of telephone notice. Also, the cost a Reserve Bank incurs to provide telephone notice of incoming transfers varies in proportion to the amount of information provided, that is, with the number of transfers received. Therefore, off-line banks will be notified promptly after receipt of each Fedwire message and charged on the basis of each message.

Several commenters suggested other modifications to the proposed service. Bankers Trust Company, New York, New York, requested that telephone notice be provided for all Fedwire messages, including non-value messages.

The Board believes that providing prompt notice for non-value Fedwire messages, which are often time-critical, would promote efficiency in the payments mechanism. Therefore, telephone notice will be provided for these messages.

The Chase Manhattan Corporation, New York, New York, the American Bankers Association, and the Independent Bankers Association of America were concerned that an off-line bank would be charged for an attempted telephone notice, even if the Reserve Bank was not successful in contacting the receiving bank. Under the telephone notice service, the Reserve Bank would make several attempts to notify an off-line bank. If an off-line bank cannot be reached on the date of the transfer, then
anticipates that the Reserve Banks will enhance the FLASH-Light product to provide Fedwire notices and will begin offering this capability to off-line banks during the third quarter of 1991. The Federal Reserve will continue to seek enhancements that would facilitate electronic access.

Wells Fargo Bank, San Francisco, California, noted that telephone notice of incoming Fedwire transfers presents security and operational risks. The Reserve Banks will reiterate to off-line banks the importance of calling the Reserve Bank to confirm the validity and accuracy of all Fedwire telephone notices received. The Reserve Banks will continue to evaluate possible off-line security enhancements, which may be implemented in the future.

First Chicago Corporation, Chicago, Illinois, recommended that the Reserve Banks provide an account status inquiry capability for off-line banks. Several Reserve Banks have implemented an account balance inquiry capability for their Fedwire participants, including off-line banks, and the remaining Reserve Banks are considering offering this capability.

Based on an analysis of the comments received, the Board has adopted a requirement that Reserve Banks notify by telephone all depository institutions that do not have electronic access to Fedwire of the receipt of incoming Fedwire third-party funds transfers and related non-value messages. Notice will also be provided for settlement transfers and related non-value messages, if the off-line receiving bank has notified its Reserve Bank that it may receive Fedwire transfers for credit to a respondent institution. An off-line bank that does not maintain an account for another depository institution will not be required to receive telephone notice of incoming settlement transfers, but could request such notice as an optional service. Transfers to off-line receiving banks from foreign central banks and international agencies (type code 15) will also be subject to the telephone notice service. A per transfer surcharge will be assessed to the off-line receiving bank for each transfer for which the Reserve Bank attempted to provide telephone notice.

The telephone notice service will be implemented on January 1, 1991. This fall, the Board will adopt the 1991 funds transfer fees, including the telephone notice surcharge, as part of the 1991 fee schedules for Federal Reserve priced services.

Competitive Impact Analysis. The Board believes that this action will have no adverse effect on the ability of other service providers to compete effectively with the Federal Reserve in providing similar services. Several commenters concurred with the Board’s belief that implementing the telephone notice service would have no effect on the operations of the Clearing House Interbank Payments System (CHIPS), because this system does not serve off-line banks.

Correspondent institutions provide access to Fedwire to a number of small institutions, and this action generally will not affect the correspondents’ relationship with their respondent institutions. The American Bankers Association and the Chase Manhattan Corporation noted that a sending bank, knowing that an off-line bank would receive telephone notice from its Reserve Bank, may bypass the off-line bank’s correspondent bank and remit the funds transfer directly to the off-line bank. The Board believes that relatively few off-line banks would typically receive third-party funds transfers both directly from their Reserve Bank as well as through a designated correspondent account, and that any adverse effect on correspondent services stemming from the proposed telephone notice service would be minimal.


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