

Fedwire Funds Service
Market Convention & Message Format Changes for Cover Payments
Effective November 21, 2009

Frequently Asked Questions
General Information

1. What are cover payments?

Cover payments are used in correspondent banking, usually to facilitate international transactions. They are payments made through a chain of correspondent banks to settle (“cover”) a credit transfer message that travels a more direct route to the ultimate beneficiary’s bank.

Although the use of cover payments creates efficiencies for banks, current messaging standards do not ensure full transparency of the ultimate originator and beneficiary involved in the transaction. As a result, regulators have raised concerns that cover payments could expose intermediary banks involved in the transaction to an increased risk of unknowingly facilitating illicit activities.

2. Why are the Federal Reserve Banks making message format changes to the Fedwire Funds Service in November 2009?

To improve the transparency of underlying customer details related to cover payments, both SWIFT and the Federal Reserve Banks will be implementing the following message format changes on **Saturday, November 21, 2009**.

- SWIFT will implement a new message for cover payments (i.e., MT202 COV). The MT202 COV message will contain Sequence A for basic payment and routing information and Sequence B for underlying customer credit transfer details.
- The Reserve Banks will implement changes to the Fedwire Funds Service customer transfer (CTR) message to support a market convention for carrying the underlying customer details related to cover payments when settling cover payments via the Fedwire Funds Service.

3. How will the Fedwire market convention for cover payments work?

The market convention includes a Mapping Table that describes how to map the fields contained in a SWIFT MT202 COV message to specific tags in a Fedwire CTRCOV message.

- In general, banks will be able to map Sequence A of the MT202 COV message to the Fedwire CTRCOV message using the same mapping routines as used to map the MT202 message to the Fedwire bank transfer (BTR) message.
- Banks will map Sequence B of the MT202 COV message to the Fedwire FI to FI Information {6100} through {6410} tags. These tags contain enough characters in total to support the maximum number of characters that could be contained in the comparable SWIFT fields, but due to differences in individual line lengths, banks will need to follow a convention for mapping the SWIFT Sequence B fields to the Fedwire FI to FI Information tags.

4. What changes are being made to the Fedwire Funds Service message format, effective November 21, 2009, to support the market convention for cover payments?

New edits will be applied to Fedwire Funds Service messages when tag {3600} Business Function Code is "CTR" and the Transaction Type is "COV". The specific edits are summarized in *Appendix B of the Fedwire Market Convention for Cover Payments* document and noted in the *Fedwire Application Interface*

Manual (FAIM) Version 1.1 Section 4.3, which contains the message format layout and edits for the Fedwire Funds Service. [Note: The FAIM document replaced the Computer Interface Protocol Specifications (CIPS).]

A key edit change relates to the FI to FI Information tags. The current Fedwire CTR message only permits a *combined six-line limit* for tags {6100} through {6500}. This limitation means that each of these tags may be limited in size, depending upon the length of other tags in the series. To support the market convention for cover payments, each Fedwire FI to FI Information tag, in its full length, may be needed to carry Sequence B data from the MT202 COV message. Therefore, changes will be made in November 2009 to relax the *combined six-line limit* for tags {6100} through {6500} for Fedwire “CTRCoV” messages, even though existing six-line limits will still apply to each of these tags individually.

5. How will these changes affect my institution (FedLine Direct[®], FedLine Advantage[®] and Offline customers)?

A. General Information

The majority of Fedwire Funds Service participants do not send or receive cover payments. However, you may still consider making changes to any payment application(s) that interface with the Fedwire Funds Service to protect yourself against receiving a stray “CTRCoV” message as these messages may need to be processed differently than a classic “CTR” message.

These changes will most likely affect your institution if you participate in correspondent banking relationships and send and/or receive cover payments. You are advised to work with your vendors and internal software development teams to ensure that any payment applications that interface with the Fedwire Funds Service can process Fedwire CTRCoV messages.

B. FedLine Direct Customers

The Reserve Banks will make changes to allow FedLine Direct (FLD) customers to send and receive cover payments via the Fedwire Funds Service.

The Reserve Banks will require all FedLine Direct customers and vendors to test that they can “receive” a CTRCoV message from their designated Wholesale Testing Unit (WTU) in the Reserve Banks’ Depository Institution Test (DIT) environment. If material customer/vendor application changes are required, then recertification of customer/vendor software is **required**. Even FLD customers and vendors who do not expect to send/receive cover payments will be required to validate that they can receive a stray CTRCoV message without interfering with their normal payment or backend operations.

C. FedLine Advantage Customers

The Reserve Banks will make changes to the FedLine Advantage (FLA) FedPayments[®] Manager (FPM) Funds application to allow FLA customers to send and receive cover payments via the Fedwire Funds Service.

FLA customers who manually enter payment instructions into the FPM Funds application and need to originate cover payments will need to follow a market convention for entering details about the cover payment in the Fedwire CTR message. These customers may also need to change their procedures for incoming Fedwire funds transfers so that they treat incoming Fedwire CTRCoV messages differently than the CTR messages they receive today.

FLA customers who use the import/export feature of the FPM Funds application will need to make sure that their backend applications can handle the origination/receipt of a Fedwire CTRCoV message.

FLA customers who believe they do not and will not ever send/receive a cover payment, are advised to be prepared to handle the receipt of an incoming stray CTRCOV message.

D. Offline Customers

Offline customers will not be able to originate cover payments via the Fedwire Funds Service. However, offline customers will be able to receive cover payments sent to them from an online institution. Offline customers will be informed about any incoming cover payments via their designated Wholesale Operations Site.

6. What documentation do I need to review to prepare for the November 2009 Fedwire Funds Service message format changes for cover payments?

The following documents provide important information related to the November 2009 Fedwire message format changes and the usage of the market convention for settling cover payments via the Fedwire Funds Service:

- ***Fedwire Application Interface Manual (FAIM), Version 1.1***
The specific message format edit changes are documented in FAIM Section 4.3.
- ***Fedwire Market Convention for Cover Payments***
- ***Fedwire Market Convention for Cover Payments – Example Messages***
- ***Fedwire Funds Service 2009 Format Change for Cover Payments – Information Sessions***

In February and March 2009, the Reserve Banks hosted information sessions to discuss the November 2009 Fedwire Funds Service message format changes and the market convention for cover payments. If you were not able to attend one of these sessions and would like to obtain a copy of these documents, please contact your institution's designated Customer Contact Center (contact numbers provided in Question 10 below).

7. When can banks and vendors begin testing these changes and will banks and vendors need to certify that they tested the changes?

The Reserve Banks made the Depository Institution Test (DIT) environment available for customer and vendor testing on **Monday, March 23, 2009**. Specific details about the testing schedule and requirements for vendor/customer certification (if any) are provided in the Frequently Asked Questions document on Testing & Certification at <http://www.frb services.org/campaigns/fedwireformat/index.html>

8. How can I request a reversal of a CTRCOV message?

Depending upon the specific approach you select, the procedure for requesting a reversal of a CTRCOV message may be different than requesting a reversal for any other message type. For other message types, a request for a reversal can only be made using the Fedwire service (SVC) message. An institution can request a reversal of a CTRCOV message by using either the Fedwire CTR message or the service (SVC) message. Please note the following options below:

Option 1: Requesting a reversal using a CTRCOV message

A request for reversal of a CTRCOV message using a CTRCOV message will allow you to include all of the "Sequence B" payment details from the original CTRCOV message. The request for reversal should include the following:

- In tag {1510} Type/Subtype Code, indicate type code **10** (Funds Transfer), **15** (Foreign Transfer) or **16** (Settlement Transfer) and subtype **01** (Request for Reversal of a Current Day Message) or **07** (Request for Reversal of a Prior Day Message).

- In tag {3600} Business Function Code indicate **CTRCOV**.
- Include all of the "mandatory" CTRCOV tags in the message including tags {4320}, {6100} and {6310}.
- Include tag {3500} Previous Message Identifier, which is optional for subtype 01 and 07 messages, but could be used to indicate the IMAD of the message that you would like returned. This should be sufficient information for the receiving institution to identify the message that you are requesting be returned.
- There may be other market practices used today to request a reversal of a Fedwire message and you could continue to follow those as well. For example, some institutions may wish to include all Sequence B payment details from the original CTRCOV message in the request for reversal message, while others may only include tag {3500} Previous Message Identifier to identify the message that you would like returned.

Option 2: Requesting a reversal using a SVC message

A request for reversal of a CTRCOV message using a SVC message would be handled the same way as requests for reversals are handled today. However, all of the "Sequence B" details from the CTRCOV message may not fit into the {6xxx} tags of the SVC. The only way to request a reversal and include all of the payment details from the original CTRCOV message would be to use the CTRCOV message as described in Option 1 above.

9. How can I return/reverse a CTRCOV message sent to my institution in error?

Returning a CTRCOV message will be handled in the same way as returns of other Fedwire messages. An institution can return a CTRCOV message by using the Fedwire CTR message. The return message should include the following information:

- In tag {1510} Type/Subtype Code, indicate type code **10** (Funds Transfer), **15** (Foreign Transfer) or **16** (Settlement Transfer) and subtype **02** (Reversal of a Current Day Message) or **08** (Reversal of a Prior Day Message).
- In tag {3600} Business Function Code indicate **CTRCOV**.
- Include all of the "mandatory" CTRCOV tags in the message including tags {4320}, {6100} and {6310}.
- Include tag {3500} Previous Message Identifier, which is also mandatory for subtype 02 and 08 messages. You would use this tag to indicate the IMAD of the message that you are returning. This should be sufficient information for the receiving institution to identify the message being returned.
- There may be other market practices used today to return a Fedwire message and you could continue to follow those as well. For example, some institutions may include all information from the original message in the return message, while others may only include tag {3500} Previous Message Identifier to identify the message being returned.

Note: If the CTRCOV message that you are returning contains 2,380 characters (i.e., the maximum message size), when you originate the return message, the message will be rejected (i.e., error message H037 MSG Exceed 2380 CHAR) due to tag {3500} being populated. Therefore, in this case, you will need to limit the amount of data you include in the return message.

10. Who can I contact to get a copy of the documentation related to the November 2009 Fedwire Funds Service message format changes for cover payments?

Kansas City Customer Contact Center (CCC) 1-800-333-2690

For customers in the Atlanta, Boston, Chicago, Kansas City, New York or Philadelphia districts.

Minneapolis Customer Contact Center (CCC) 1-888-333-7010

For customers in the Cleveland, Dallas, Minneapolis, Richmond, San Francisco or St. Louis districts.

11. Who can I contact if I have any questions about how the message format changes to the Fedwire Funds Service may affect my institution?

Boston Wholesale Operations Site (WOS) 1-800-327-0147

For customers in the Boston, Cleveland, Dallas, New York, Philadelphia or St. Louis districts.

Kansas City Wholesale Operations Site (WOS) 1-800-333-2448

For customers in the Atlanta, Chicago, Kansas City, Minneapolis, Richmond or San Francisco districts.