

Transforming wire format for payments efficiency

Earlier this year, the Federal Reserve Banks announced plans to implement enhanced Fedwire message formats for cover payments and payments containing business remittance information. Increased efficiency was a key area of focus in developing the new formats, along with the growing need for increased transparency in international payments.

The planned format enhancements are being jointly developed with The Clearing House Payments Company, and evolved from a 2006 joint research study that showed a demand among corporations for increased efficiency from wire transfer remittance details and a single remittance information standard. In 2007, the remittance information initiative crossed paths with another message format effort to improve the transparency of international payments.

This 2006 study sparked industry dialogue with financial institutions, corporations and software vendors, which, in turn, helped determine that format enhancements would be most successful if implemented as part of a broader strategy to facilitate greater interoperability for cross-border wire transfer payments.

Planned enhancements focus on two main areas:

1. **Cover payments** are commonly used in correspondent banking as part of an international transaction. They are made through a chain of correspondent banks to settle, or cover, a credit transfer message that travels a more direct route to the ultimate beneficiary's financial institution.
2. **Business remittance information** is used to explain the purpose of the payment, such as invoice detail, and helps beneficiaries process incoming payments.

"The changes will make it possible to carry information to identify multiple underlying customers in the case of cover payments and multiple underlying invoices in the case of business remittance information," said Lauren Hargraves, senior vice president of the Federal Reserve Banks' Wholesale Product Office.

information will also generate STP efficiencies for financial institutions and their customers.

Several options were considered in developing the format, and the clear preferences for a two-phased format strategy addressing both cover payments and business remittance information —

"These enhancements respond to the needs of both banks and corporations to improve efficiency in wire transfer payments."

Lauren Hargraves, Senior Vice President
Federal Reserve Banks' Wholesale Product Office

Hargraves will be discussing the next milestones for high-value payments market infrastructures with fellow industry panelists at the Sibos 2008 Conference in Vienna, Austria.

These message format initiatives will have two phases:

1. **By November 2009**, a market convention will be published on how to use the existing Fedwire Funds Service message format to ensure full transparency of cover payments, consistent with transparency principles published in 2007 by a group of global banks known as The Wolfsberg Group, along with The Clearing House.
2. **By fourth quarter 2010**, the U.S. dollar wire transfer message formats will be expanded to permit additional characters for cover payment and business remittance information. This will enable institutions to efficiently map the new SWIFT cover payment message into a Fedwire Funds Service message. Expanded remittance

expressed via a Federal Reserve study in March 2008 — helped to solidify the recommended approach.

The planned enhancements were designed to balance the impact of implementation for financial institutions against the need to comply with regulatory requirements and meet corporate needs. To allow for seamless integration with customers' existing systems, the enhanced business remittance information message will be compatible with a variety of popular formats used by corporations.

These changes are part of the Federal Reserve Banks' ongoing efforts to increase payment efficiency and provide value-added services to our customers. More information will be shared as details are finalized. For additional information on these upcoming enhancements and Hargraves' session at the Sibos 2008 Conference, visit FRBservices.org.