



For Immediate Release

NEWS RELEASE

Federal Reserve Banks and The Clearing House Issue Specifications for New Cover Payments Message Format

SWIFT Message Format Requires Banks to Make Changes to Their Wire Transfer Systems in Advance of November 2009 Deadline

New York – October 20, 2008 – The Federal Reserve Banks (FRBs) and The Clearing House today announced that they have each completed and distributed specifications for banks to maintain compatibility with the SWIFT enhanced message format when transmitting cover payments through the Fedwire® Funds Service and CHIPS®, the nation's U.S. wire transfer systems.

The enhanced Fedwire, CHIPS, and SWIFT message formats are designed to help banks comply with these standards by ensuring enhanced transparency for cover payments. Frequently used in international correspondent banking transactions, cover payments pass through a chain of correspondent banks to settle a credit transfer message that travels a separate route to the ultimate beneficiary's bank. However, current messaging standards do not ensure full transparency of the ultimate originator and beneficiary involved in the transaction. As a result, the current cover payment process could expose intermediary banks involved in the transaction to an increased risk of unknowingly facilitating illicit activities.

In April 2007, the Wolfsberg Group and The Clearing House Association L.L.C. published four payments message standards aimed at enhancing transparency and reducing vulnerabilities in certain payments processes, such as the cover payments process.

"The Federal Reserve Banks and The Clearing House have been working collaboratively with banks and other high value payment system operators around the world to create specifications for Fedwire and CHIPS that improve transparency, maintain SWIFT compatibility, and minimize system changes for financial institutions," said Lauren Hargraves, Senior Vice President of the Federal Reserve Banks' Wholesale Product Office. "Even though the changes take effect a year from now, it's prudent for banks to begin plans to adapt their internal systems."

Banks are expected to start testing the new format in the May/June 2009 timeframe in anticipation of the November 2009 deadline.

"We have worked very successfully with banks and other payment system operators to develop specifications for each system," said Hank Farrar, Senior Vice President of The Clearing House, responsible for CHIPS. "The implementation of the new cover payment message format is the first of two planned enhancements for U.S. dollar wire transfer systems. After cover payments, we will focus on enabling our systems to carry remittance information with wire payments."

"Fedwire" is a registered service mark of the Federal Reserve Banks.

Both the Federal Reserve Banks and The Clearing House have been working with banks and operators to develop specifications to permit business remittance information to be included with Fedwire and CHIPS payments by the fourth quarter of 2010.

The cover payment specifications for Fedwire® Funds Service are available from the Federal Reserve Banks at www.frbervices.org or for CHIPS participants at the CHIPS website, www.chips.org.

The Federal Reserve Banks

The Federal Reserve Banks are the owners and operators of payments infrastructure, including the Fedwire Funds Service. The Fedwire Funds Service, now in its 90th year, is the Federal Reserve Banks' high value, high-speed wire transfer system. Each funds transfer made via the Fedwire Funds Service is separately initiated, processed and settled in real time upon receipt via a highly secure electronic network. More than 6,500 financial institutions have access to the Fedwire Funds Service. In 2007, the number of Fedwire Funds transfers totaled just over 137 million with an average daily value of approximately \$2.7 trillion. For more information regarding the Fedwire Funds Service or other Federal Reserve Bank financial services, please visit www.frbervices.org.

Media Contact

David Fetting, Spokesman, Federal Reserve's Financial Services Policy Committee at 612-204-5274 or David.Fetting@mpls.frb.org.

The Clearing House and CHIPS

Formed by banks more than 150 years ago, The Clearing House (www.theclearinghouse.org) is a private-sector, global payment systems infrastructure that clears and settles more than 70 million payments for \$2.5 trillion per day. The Clearing House serves more than 1,400 U.S. financial institutions and hundreds of international participants with paper check and image exchange, ACH, and wire. Its wire system, CHIPS, (www.chips.org) provides real-time, final payments to financial institutions in the U.S. and around the world. It features multilateral netting with payments finality — a patented process that maximizes the use of liquidity — and supports the inclusion of large amounts of invoice information with payments in universally accepted standards. For more information, visit www.theclearinghouse.org.

Media Contacts For The Clearing House:

Chip Savidge, 336-769-5321, chip.savidge@theclearinghouse.org
Greg Berardi, 415-239-7826, greg@bluemarlinpartners.com.