

Market Convention for Dodd-Frank Remittance Transfers Effective February 7, 2013

Effective February 7, 2013, Fedwire Funds Service participants that send international funds transfers on behalf of consumers located in the U.S. (“remittance transfers”) may become subject to the remittance transfer requirements contained in the Consumer Financial Protection Bureau’s final rule implementing section 1073 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Section 1073 of the Dodd-Frank Act”). We are aware that many of the major U.S. dollar correspondent banks are planning to enter into bilateral agreements with their respondents to facilitate compliance with these new requirements. In order to encourage a standard practice for identifying transfers over the Fedwire Funds Service and Clearing House Interbank Payments System (CHIPS®) that are also remittance transfers, which may facilitate compliance with Section 1073 of the Dodd-Frank Act, the Federal Reserve Banks and The Clearing House Payments Company, L.L.C. (“The Clearing House”) have developed the market convention described in Appendix 1. Fedwire senders and receivers that have agreed with one another to apply special handling to remittance transfers are advised to follow the market convention.

The crux of the market convention is for banks to identify remittance transfers in a Fedwire customer transfer message by inserting a three-character codeword between slashes (i.e., **/CTO/**, **/CTB/** or **/CTS/**) at the beginning of any line (preferably line 1) of tag {6500} FI to FI Information.

The codeword has a static component and a variable component: (1) a “CT” denotes that the transfer is one that the sender has determined is a remittance transfer subject to Section 1073 of the Dodd-Frank Act; and (2) an “O”, a “B”, or an “S” denotes the charge code to be applied in accordance with the bilateral agreement between the Fedwire sender and receiver.

The Federal Reserve Banks will not make message format changes to enforce this market convention. Rather, Fedwire Funds Service participants engaged in bilateral agreements as described above and/or their vendors are advised to make changes to their payment applications and/or procedures to support the market convention.

Background

On February 7, 2012, the [Consumer Financial Protection Bureau \(CFPB\) issued the final rule](#) for implementing Section 1073 of the Dodd-Frank Act. The rule becomes effective on February 7, 2013.

Generally, remittance transfers are electronic transfers of funds over \$15 sent by a consumer (i.e., a person) in the United States to a person or company in a foreign country. Remittance transfer providers will need to provide their customers with certain disclosures before and after the customer pays for the remittance transfer, including disclosures regarding the timing, exchange rate, fees (including intermediary bank and beneficiary bank fees), taxes and the amount of money to be delivered to the beneficiary. Banks will need to consult with their compliance and legal areas to determine how they will comply.

On [August 7, 2012, the CFPB announced](#) that institutions that consistently conduct 100 or fewer remittance transfers per year do not provide these transfers in the “normal course of business” and therefore are not remittance transfer providers subject to the new requirements. However, if an institution that provided 100 or fewer remittance transfers in the previous year provides more than 100 remittance transfers in the current year, the rule provides a reasonable transition period, not to exceed 6 months, to comply.

Through discussions with banks, industry groups and The Clearing House, which operates CHIPS, the Federal Reserve Banks understand that some U.S. dollar correspondent banks will enter into bilateral agreements with their counterparties to govern how they will handle remittance transfers. Financial institutions that wish to use a correspondent bank for remittance transfers may also choose to enter into a bilateral agreement with their correspondent bank to ensure that handling of the funds transfer by the correspondent is consistent with disclosures made by the remittance transfer provider to the consumer.

Financial institutions requested that the Federal Reserve Banks and The Clearing House agree to a common approach that banks could use to identify remittance transfers and communicate the desired charging convention in a Fedwire Funds Service or CHIPS message. As a result, the Federal Reserve Banks and The Clearing House have developed a market convention that can be incorporated into bilateral agreements between remittance transfer senders and receivers.

Testing

The Federal Reserve Banks recommend that correspondent banks and their respondents partner with each other to test the market convention in the Depository Institution Testing (DIT) environment before February 7, 2013. To sign up for DIT testing, please complete a [Fedwire Application Test Request Form](#).

For More Information

If you have any questions about these changes, please contact your designated [Wholesale Operations site](#).

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Appendix 1

Fedwire Funds Service Market Convention for Identifying Consumer Remittance Transfers Subject to Section 1073 of the Dodd-Frank Act Effective February 7, 2013

Effective February 7, 2013, financial institutions that have bilateral agreements requiring special handling for remittance transfers sent using the Fedwire Funds Service should follow the following market convention to identify those transactions and specify the requested charging practice in the message format for the Fedwire Funds Service.

1. The Fedwire sender should send the remittance transfer using a Fedwire Funds Service customer transfer message. The following business function codes can be used in tag {3600} Business Function Code:
 - CTR (Customer Transfer)
 - CTP (Customer Transfer Plus)

Note: Banks that send CHIPS payments should use the CHIPS non-bank message.

2. The sending bank should insert a three-character codeword between slashes at the beginning of any line (preferably line 1) of Fedwire tag {6500} FI to FI Information.

Note: Banks that send CHIPS payments should use CHIPS tag [650].

As shown in the table below, the codeword has two components.

- a. The first component is two characters (CT for “Consumer Transfer”) and denotes that the sender has determined that the transaction is a remittance transfer subject to Section 1073 of the Dodd-Frank Act.
- b. The second component is in the third character, which is variable (O for “OUR”, B for “BEN”, or S for “SHA”), and which denotes a charge code for how transaction fees associated with the remittance transfer should be applied in accordance with bilateral agreements between senders and receivers.

Codeword in Fedwire Tag {6500}	Description of Codeword
{6500}/CTO/	Remittance transfer in which the <i>originator</i> pays all transaction charges (OUR)
{6500}/CTB/	Remittance transfer in which the <i>beneficiary</i> pays all transaction charges (BEN)
{6500}/CTS/	Remittance transfer in which the transaction charges are shared (i.e., <i>originator</i> pays all transaction charges on the send side and the <i>beneficiary</i> pays all transaction charges on the receive side) (SHA)

Note: Receiving banks will need to map the Fedwire Funds Service remittance transfer codeword to a downstream SWIFT message (e.g., field 26T or 72) depending on the SWIFT market practice agreed to by the industry.

3. Because the codeword (CTO, CTB or CTS) in tag {6500} includes a component for the charge code associated with the transaction (i.e., O, B or S), the sending financial institution should not use tag {3700} Charges in the Fedwire Funds Service message. However, if a receiving bank receives a Fedwire Funds Service message for a remittance transfer and tag {3700} Charges is present, then in applying this market convention the receiving bank would ignore that tag, especially if it contains a charge code that is in conflict with the charge code in tag {6500}.

Note: Banks that send CHIPS payments should not use CHIPS tag [301].

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