



**International Bancshares
Corporation**

August 28, 2018

Via email regs.comments@federalreserve.gov

Ms. Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: Docket No. OP-1613 – New Message Format for the Fedwire® Funds Service; Board of Governors of the Federal Reserve System (“Federal Reserve”)

Ladies and Gentlemen:

The following comments are submitted on behalf of International Bancshares Corporation (“IBC”), a multi-bank financial holding company headquartered in Laredo, Texas. IBC holds five state nonmember banks serving Texas and Oklahoma. With approximately \$12 billion in total consolidated assets, IBC is one of the largest independent commercial bank holding companies headquartered in Texas. IBC is a publicly-traded holding company. As many of IBC’s locations are located along the Texas-Mexico border where cross-border payments are common, the Federal Reserve’s proposal to adopt the ISO 20022 message format for the Fedwire® Funds Service (“Fedwire”) is very important to IBC. We appreciate the opportunity to comment on the Federal Reserve’s Proposal.

On July 5, 2018, the Federal Reserve requested comments on a proposal to adopt the ISO 20022 message format. Fedwire ISO 20022 is an international standard that would replace Fedwire’s current, proprietary message format. The planned move from the existing system to the ISO 20022 format would take place in three phases beginning in 2020 and ending in 2023. The Federal Reserve indicates that adoption of the standard is expected to both facilitate cross-border payments and permit banks to offer additional services to their payment customers. ISO 20022 is a widely used standard that has already been adopted by a number of foreign wire transfer systems.

The current Fedwire uses a proprietary message format that supports multiple types of communications. Fedwire participants can send both “value” messages that order the movement of funds and “nonvalue” messages that do not result in the movement of funds, but rather communicate information or requests to other participants. Fedwire also supports messages that enable participants to request account balance information and the processing status of payment orders. Even though Fedwire’s messaging format is proprietary, it can be mapped to and is interoperable with the CHIPS proprietary messaging format and the message type format of the SWIFT messaging network that many banks use to communicate with one another.

The ISO 20022 standard includes a suite of messages for the financial industry, including messages for payments, securities, trade services, cards and foreign exchange. ISO 20022

messages use extensible markup language (“XML”) syntax and have a common data dictionary that can support end-to-end payment message flow, including payment initiation, interbank settlement and cash management. ISO 20022 messages include structured data elements that provide for potentially richer payment message data than the current Fedwire message format.

From a global perspective, many foreign wire transfer systems, including those for currencies of key U.S. trading partners, have adopted ISO 20022 (e.g., China, India, Japan, Switzerland) or have announced plans to adopt ISO 20022 (e.g., Canada, European Union, Hong Kong, United Kingdom).

Comments

Potential Benefits of Adopting ISO 20022

The Federal Reserve indicates that the ISO 20022 message format will allow Fedwire participants to include richer and more structured data in their messages, such as increased character lengths for name data elements and discrete elements for address information, including a country code. The data could help banks and other entities meet evolving requirements to screen payments for sanctions and anti-money laundering purposes, and, as a strong proponent of anti-money laundering efforts, IBC would support this endeavor.

The Federal Reserve also states that in terms of cross-border payments, adopting ISO 20022 as a common, global standard could also reduce operating costs for banks and their customers by reducing the need to map payment information from one message format to another. This could improve the efficiency of end-to-end processing of multi-leg domestic and international funds transfers. ISO 20022 supports a structured format for including extended remittance information (“ERI”) in business-to-business payment messages. Widespread adoption of ISO 20022 could create a common, global format for ERI that could encourage depository institutions and their customers to invest in the changes needed to support the end-to-end flow of ERI for business-to-business payments, offering significant potential gains in efficiency and cost, and the possibility of new services for bank customers. IBC strongly supports all efforts to reduce operating costs for banks, particularly community and regional banks, which have been subjected to significantly higher compliance and operational costs since the passage in 2010 of the Dodd-Frank Act.

The Federal Reserve does not believe that the proposal to adopt ISO 20022 will have an adverse impact on other service providers due to the coordination of the Reserve Banks with other service providers on aligning the ISO 20022 implementation. The Clearing House Payments Company, L.L.C. (“TCH”) has indicated that CHIPS and Fedwire will be interoperable to the extent possible once both systems have migrated to ISO 20022 and the Reserve Banks are focused on coordinating with SWIFT on an ISO 20022 network solution so that SWIFT messages can contain ISO 20022 enhanced data. IBC requests that the Federal Reserve do everything possible to ensure that CHIPS and Fedwire be interoperable.

Impact on Fedwire Participants and Service Providers

The Federal Reserve expects that participants and service providers that develop their own software or rely on software from vendors to access Fedwire, will need to make significant changes to their payment applications or processes to be able to send and receive messages in the revised proprietary format of Phase 1 and in the new ISO 20022 format of Phases 2 and 3. Those most affected by the message type switch are likely to be those institutions that (1) access Fedwire via the FedLine Direct[®]22 solution or (2) use the import/export feature of FedPayments Manager. Fedwire participants that access Fedwire manually through FedPayments Manager-Funds will need to become familiar with the terminology used in, and the information required by, the ISO 20022 format as well as the updated appearance of the FedPayments Manager user interface.

The Reserve Banks plan to provide training regarding these FedPayments Manager updates. Some Fedwire participants use an offline, telephone-based service that requires a Reserve Bank employee to enter payment order information into a Reserve Bank application. The Federal Reserve does not anticipate that these participants' current process for submitting payment orders would materially change, but recommends that the participants become familiar with the terminology used in and the information required by the ISO 20022 format so that it can be provided to the Reserve Bank employees. IBC supports the Federal Reserve's proposal; however, IBC strongly urges the Federal Reserve to provide sufficient time and resources, particularly for community and regional banks, to ensure that adoption of ISO 20022 is as seamless as possible.

Challenges to ISO 20022 Adoption

Although not expressly addressed in the Federal Reserve's proposal, Minneapolis Fed Senior Vice President Claudia Swendseid has highlighted some challenges to ISO 20022 adoption.¹ According to reports from the Association for Financial Professionals ("AFP"), one of the biggest challenges is the ongoing lack of understanding around the messaging standard; the Fed has created a guide to help educate financial institutions on ISO 20022 in response.² Ms. Swendseid has stated that, "The U.S. has now created a roadmap, and it's moving forward," and, "The wire infrastructure will be the first infrastructure to abandon its propriety formats and move to ISO 20022."³

However, the biggest hurdle in efforts to promote the adoption of ISO 20022 appears to be the National Automated Clearing House Association ("NACHA"), which has yet to decide whether it will implement ISO 20022 for ACH payments.

¹ "Fed Acknowledges Roadblocks in ISO 20022 Push," June 20, 2016 (<https://www.pymnts.com/news/b2b-payments/2016/federal-reserve-iso-20022-adoption-update/>).

² *Id.*

³ *Id.*

NACHA has created a working group to explore the decision.⁴ Ms. Swendseid has said she is confident that, once wire payments move to the ISO 20022 standard, ACH payments will soon follow.⁵ Ms. Swendseid has also stated that, “This could create opportunities for global companies to streamline some of their processing with their bankers,”... “Because if you’re an international company, there are lots of processes that you could streamline. Banks could do all sorts of transactions for you, but they charge you for that and rightly so.”⁶ We urge the Federal Reserve to work closely with NACHA to ensure that ACH payments also adopt the ISO 20022 to ensure uniformity and consistency between Fedwire and ACH.

On a positive note, according to AFP Manager of Treasury and Payments Magnus Carlsson, the ISO 20022 adoption efforts will be instrumental in other payments initiatives presently in the works, like the Fed’s Faster Payments goals and TCH’s own projects. Mr. Carlsson has stated that, “Anything new that comes out will almost certainly be with this standard.”⁷

Fedwire Concerns

Although not expressly a part of the Federal Reserve’s proposal, IBC would like to take this opportunity to again express its broader concerns with the Federal Reserve’s treatment of Fedwires in certain situations. More particularly, IBC has concerns with obtaining the return of a Fedwire to the sending financial institution due to errors made by the sending financial institution (e.g., incorrect beneficiary or account number). Currently, wire transfers are sent directly to the beneficiary bank through the Federal Reserve and there is very little assistance in getting them returned to the sending financial institution. Additionally, the beneficiary’s account debit authorization should not be required under Regulation E for erroneous returned wires as, in some cases, such consent is not given due to fraudulent reasons and there is unjust enrichment at the expense of the sending financial institution. The elimination of this requirement would greatly expedite the return of these wires. We respectfully request that the Federal Reserve address these problems in a future rulemaking proposal by eliminating the need for beneficiary account authorization for wires containing errors and implementing specific methods to assist sending financial institutions with obtaining their return such as providing a safe harbor for receiving financial institutions (e.g., hold harmless letter) that place a hold on their customer’s account and return funds to the sending financial institution. Additionally, we note that if the Federal Reserve permitted a short description in the Fedwires’ “Purpose of the Wire” category to include the name, address and the country, we believe it would greatly assist banks to provide more information to help identify the recipients and, thereby, further support anti-money laundering efforts.

⁴ *Id.*

⁵ *Id.*

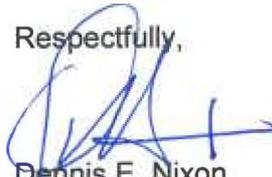
⁶ *Id.*

⁷ *Id.*

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Thank you for your consideration.

Respectfully,

A handwritten signature in blue ink, appearing to read "Dennis E. Nixon", is written over the word "Respectfully,".

Dennis E. Nixon
President
International Bancshares Corporation