



Response to the Federal Reserve System's Notice of proposed service enhancement 'New Message Format for the Fedwire Funds Service'

SWIFT

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Confidentiality: Public

SWIFT thanks the Federal Reserve System for the opportunity to provide comments to the Notice of proposed service enhancement 'New Message Format for the Fedwire Funds Service'.

SWIFT is a member-owned cooperative headquartered in Belgium. SWIFT is organised under Belgian law and is owned and controlled by its shareholders, comprising more than 2,000 financial institutions. We connect more than 11,000 institutions in more than 200 countries and territories. A fundamental tenet of SWIFT's governance is to continually reduce costs and eliminate risks and frictions from industry processes.

SWIFT provides banking, securities, and other regulated financial organisations, as well as corporates, with a comprehensive suite of messaging products and services. We support a range of financial functions, including payments, securities settlement, reporting, and treasury operations. SWIFT also has a proven track record of bringing the financial community together to work collaboratively, to shape market practice, define formal standards and debate issues of mutual interest.

If you wish to discuss any aspect of our response please do not hesitate to let us know.



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A. Potential Benefits and Drawbacks of Adopting ISO 20022

1. Would adopting ISO 20022 for the Fedwire Funds Service produce the benefits discussed above?

Answer: SWIFT believes that the adoption of ISO 20022 will deliver the benefits set out in the FRB consultation. In particular we believe ISO 20022 will lead to: improved transparency by enabling the inclusion of richer and better structured data; efficiency gains by improving domestic and international interoperability through the use of common standards between the Fedwire Funds Service and other payment and messaging services; reduced operating costs related to mapping and transformation of data transported in different formats; better automated reconciliation and straight through processing for banks and customers; and finally improved customer experiences and services as a result of the functional enhancements that will be introduced.

2. Would adopting ISO 20022 for the Fedwire Funds Service produce any other benefits?

Answer: There are a multitude of benefits to adopting ISO 20022. Firstly, it would provide increased resilience – as payment formats are aligned across multiple systems. Secondly, it would represent a sensible investment that would future proof the service – because ISO 20022 can adapt to the technological changes that are bound to occur. Thirdly, the adoption of ISO 20022 would lead to a more open and competitive market place – by removing the use of proprietary messaging standards as a barrier to market entry. And finally, Fedwire Funds Service participants could reap the benefits of significant investments triggered by change in the local market place where the same standard is being rolled out.

3. What drawbacks (if any) would adopting ISO 20022 for the Fedwire Funds Service entail and how might they be addressed?

SWIFT Answer: An important drawback would arise if the Fedwire Funds Service would adopt ISO 20022 in isolation. However, ISO 20022 has already become the de facto standard for the financial industry, and especially in the payments industry, the most important market places globally are (committed to) rolling out the standard in the next couple of years (*see next section*). Another drawback would arise were there to be no clear business case for the Fedwire Funds Service community to adopt ISO 20022. However, the Federal Reserve Banks can address this by providing services and solutions that shield those users as much as possible from the impact of the migration.

B. Proposed Timeline for Adopting ISO 20022

1. Is the timeline that the Reserve Banks have proposed for adopting ISO 20022 for the Fedwire Funds Service (including the proposed timeframes for publishing final message format documents and testing changes in the Reserve Banks' DIT environment) reasonable? If not, how much time would Fedwire Funds Service participants and service providers (including software vendors) need to adjust their applications and processes for each phase?

Answer: As a global service provider present in more than 200 markets, and working closely with many peers of the Fedwire Funds Service globally, SWIFT can confirm that the timeline to adopt ISO 20022 and the proposed timeframes to release documentation, specifications, and provide testing services are reasonable, especially as the schedule is the result of in-depth consultation of the broad Fedwire Funds Service community of participants, their software vendors and solution

providers. The dates proposed align well with similar changes foreseen in the UK and the Eurozone (The European Central Bank's system, Target, is expected to adopt ISO 20022 in November 2021). SWIFT continues to urge high-value payment system operators to cooperate and remain aligned on detailed implementation plans, including on market practice, where coordination is being led through the HVPS+ group, implementation approach and timetable.

2. Should the Reserve Banks delay the implementation date for phase 3 of the proposal if SWIFT has not yet implemented a solution on its network to support ISO 20022 for cross-border messages?

Answer: The success of phase 3, and the case for introducing the enhancements that it entails, is indeed dependent on the availability of a SWIFT solution for use of ISO 20022 in the cross-border space. As it stands today, a SWIFT solution will be available ahead of the Fedwire Funds Service migration. However, a delay in the availability of a SWIFT solution would likely cause issues as data-rich Fedwire Funds Service transactions would not map into the more restricted SWIFT MT format currently used for cross-border payments. Similarly, a delay in the implementation by the FED while SWIFT moves ahead, would cause issues for Fedwire Funds Service participants as data-rich inbound cross-border transactions do not seamlessly map into the more limited proprietary Fedwire Funds Service format used today. The timelines on both sides should therefore be monitored closely and be kept in sync.

3. Would the proposal to migrate to ISO 20022 in phases mitigate any risks associated with implementing ISO 20022?

Answer: SWIFT believes that a phased migration is the right approach to mitigate the risk to migrate a community the size of the Fedwire Funds Service. The phased approach will enable the necessary resources to be allocated to support individual users as they migrate in waves, and it also offers the possibility to cut users back to the proprietary formats if need be. SWIFT believes that the intention of the Fedwire Funds Service to balance each phase from a user category, traffic, and software vendor point of view will further reduce the risk related to a project of this size.

C. Impact on Fedwire Funds Service Participants and Service Providers

1. How does your institution access the Fedwire Funds Service? If your institution accesses the Fedwire Funds Service via the FedLine Direct solution or uses the import/export feature of FedPayments Manager–Funds over the FedLine Advantage solution, do you develop your own software or rely on a software vendor?

Answer: Not applicable as SWIFT is not a Fedwire Funds Service participant and does therefore not access the Fedwire Funds Service.

2. What costs would your institution incur if the Reserve Banks adopt ISO 20022 for the Fedwire Funds Service? If possible, please provide dollar estimates or ranges.

Answer: Not applicable.

3. Would the benefits of adopting ISO 20022 for the Fedwire Funds Service outweigh any associated costs for your institution?

Answer: Not applicable.

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