INTERNATIONAL BANCSHARES
CORPORATION

December 9, 2021

Via email submission:

Board of Governors of the Federal Reserve System
Ann Misback, Secretary
Attn: Docket No. OP-1613; RIN 7100-AG15
20th Street and Constitution Avenue NW
Washington, D.C. 20006
regs.comments@federalreserve.gov

Re: Comments on Notice of New Message Format for the Fedwire Funds Service: Docket No. OP-1613.

Dear Ms. Misback:

The following comments are submitted by International Bancshares Corporation ("IBC"), a publicly-traded, multi-bank financial holding company headquartered in Laredo, Texas. IBC maintains 187 facilities and 284 ATMs, serving 88 communities in Texas and Oklahoma through five separately chartered banks ("IBC Banks") ranging in size from approximately $400 million to $12 billion, with consolidated assets totaling over $15 billion. IBC is one of the largest independent commercial bank holding companies headquartered in Texas.

This letter responds to the Notice of New Message Format for the Fedwire Funds Service ("Notice") by the Federal Reserve Board ("FRB"). The Notice requests public comment on the FRB's proposal to revise the previously proposed migration and implementation plan ("Plan"). The new Plan would require the Federal Reserve Banks to adopt the new ISO 20022 message format on a single day, as opposed to the original three-phase timeline.

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 FRB 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, as well as provide increased efficiency and richer transaction data. [Notice at 55601] ISO 20022 is a widely used standard that has already been adopted by a number of foreign wire transfer systems.

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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

General Comments

The Notice states that the FRB will not include expanded character sets in its implementation of the ISO 20022 messaging standard. [Notice at 55602] IBC strongly urges the FRB to consider expanding the character sets available under the ISO 20022 messaging standard. IBC serves a large minority population, and conducts a significant volume of cross-border payments. These payments typically include sender, beneficiary, institution, and location names containing special and/or foreign characters, such as tildes and accent marks. IBC faces many issues with a lack of special character availability in a number of its day-to-day processes and regulatory reporting requirements. For example, OFAC checks and searches can frequently be rejected from automatic processes and require manual review and completion when a customer's name includes a special character. These processes would all benefit from the inclusion of expanded character sets.

Moreover, the FRB itself states that the Plan consists of one phase based on concerns regarding cross-border payment interoperability. [Notice at 55603-4] A glaring issue with such interoperability would certainly include the lack of robust special character sets in order to appropriately and accurately identify foreign senders, beneficiaries, institutions, and addresses.

The FRB states that the Format Advisory Group, consulted on whether expanded character sets should be included in the Plan, advised that the "level of demand for expanded character sets is uncertain and ...expanding character sets would be a significant change that would impact other [Fedwire] participant applications that interface with [Fedwire] participants' payment applications." [Notice at 55602]

As to the first assertion, IBC is skeptical and believes that, to the extent that data is not currently available in a centralized manner, it is likely relatively easy to compile and/or request. IBC is able to provide data related to the volume of special characters involved in its internal and external records and reporting, and believes other institutions are able to do the same. One driving purpose of implementing the ISO 20022 standard is to increase the speed and efficiency of the FRB's payment rails and systems. The unavailability of special characters in this process will likely result in increased manual processing and mistakes, or, at the very least, imperfect transaction information.

As for the second assertion regarding the significant impact to Fedwire participants' internal payment applications that interface with the Fedwire system, IBC disagrees with the FRB's decision to take such impact to internal payment systems into account for this specific issue (i.e. special characters) only. The FRB completely discounts this interfacing of internal systems with Fedwire in the context of implementing the ISO 20022 standard generally, but cites it as a primary reason for refusing to include special character sets. If the inclusion of special character sets would be a "significant change" so great that, in the FRB's opinion, its impact on internal payment and messaging systems weighs against making such inclusion, how does the implementation of the ISO 20022 standard as a whole not reflect a significant enough change to require a tempered, phased approach? It seems odd that the FRB relied on the potential negative impact to internal payment and messaging systems to justify the exclusion of special characters (particularly for a Plan meant, in part, to provide more support to and efficiency in cross-border payments and communication), but does not use the same foundational reasoning to maintain the original phased implementation schedule and plan. IBC strongly recommends that special character sets be included in the ISO 20022 implementation and the FRB revert back to a phased implementation.

Specific Requests for Comments

1. Do you support the single-day implementation strategy? If not, what implementation strategy would be optimal?

> **IBC Comment:** 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 new ISO 20022 format. [Notice at 55601] Previously, the ISO 20022 format would not be implemented until Phases 2 and 3 of the proposed timeline, with Phase 1 requiring a transition to a proprietary messaging format.
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> The FRB has done a complete 180 in terms of its implementation timeline. While IBC is not wedded to a three phase ISO 20022 implementation (especially as it was proposed by the FRB in 2018), it is certainly not supportive of a one-day switch flick implementation. While the FRB states that it will be providing up to three different testing and development environments for Fedwire participants to use, the FRB should provide an immediately accessible testing and development environment to allow institutions to ramp up ISO 20022 implementation at their own pace.

2. Should the Reserve Banks implement ISO 20022 for the Fedwire Funds Service in November 2023? If not, what would be your preferred implementation date? Please provide the rationale behind your preference.

> **IBC Comment:** IBC does not believe November is an ideal time to implement the new messaging standard because that timing lines up with the fall and winter holidays, and increased transactions and transfers as well as decreased available personnel. While IBC understands this timing is meant to line up with The Clearing House's implementation of the ISO 20022 standard, it would be better to implement during a period with less transaction traffic, and more personnel available to be on hand for the implementation.

3. Should the Reserve Banks and TCH implement ISO 20022 for the Fedwire Funds Service and CHIPS on the same day?

IBC Comment: IBC believes the Reserve Banks and TCH should not implement ISO 20022 for the Fedwire Funds Service and CHIPS on the same day. Most community banks only utilize Fedwire funds services with the Federal Reserve, and not allowing the smaller banks to convert independently from other banks who may utilize both systems will not allow for appropriate testing and identifying of issues.

4. Do you have any resource constraints or other challenges that would impact your ability to prepare for the implementation of ISO 20022 for the Fedwire Funds Service? (For example, some Fedwire Funds Service participants and software vendors may also be preparing for the ISO 20022 implementations for SWIFT and other payment system operators, which begin in November 2022, and the Reserve Banks' launch of the FedNow Service in 2023.)

IBC Comment: IBC is particularly concerned that the FRB is not adequately acknowledging and protecting against the enormous costs that will be incurred in order for financial institutions to update their messaging and transaction systems to the ISO 20022 format. While the Plan only places ISO 20022 format requirements on messages between the Federal Reserve Banks and direct Fedwire participants, those participants largely have their own internal (either proprietary or vendor-provided) messaging and transaction systems. Those systems will need to be upgraded to the ISO 20022 messaging standard, or at the very least revised or enriched in a way to allow the use of such messaging systems with the new ISO 20022 standard of Fedwire. These costs may be internalized by the Fedwire participants, or may be passed onto customers. These costs likely could be mitigated if Fedwire participants are given sufficient time and support from the FRB for the ISO 20022 transition. IBC does not believe revising the Plan to a one-phase transition would provide the time and support necessary to keep implementation costs at an acceptable level.

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.

5. Do you have any concerns about the Reserve Banks' proposed testing strategy and requirements?

IBC Comment: The FRB should provide an immediately accessible testing and development environment to allow institutions to ramp up ISO 20022 implementation at their own pace. The FRB states that it will offer three such environments, but is not clear on the timing and availability of such environments. [Notice at 55605-6]

6. How much time would you need to test your ISO 20022 messages in the MyStandards Readiness Portal before testing in the new second DIT environment?

> **IBC Comment**: Testing will not be simple due to having to internally evaluate the ISO 20022 requirements. In addition outside vendors will likely also need to implement upgrades, which they will also need to previously test and deploy. These are critical steps that will require financial institutions to evaluate all data, servers and other information technology developments to ensure data is captured and transmitted to the Federal Reserve compatible wire systems.

7. Would nine months of testing ISO 20022 messages in the new second DIT environment be sufficient? If not, what is the minimum amount of testing you would require in the second DIT environment before the ISO 20022 implementation date?

> **IBC Comment:** Even though nine months of testing may seem sufficient to the Federal Reserve, financial institutions are at the mercy of the development time needed from their vendors, especially as it relates to projecting adequate time for their own internal software implementation updates to comply with the ISO 20022 messaging requirements. An outside vendor may take up to 12 weeks to implement, test and deploy these changes, which in-turn would not allow sufficient time for financial institutions to implement the necessary changes within their own systems.

8. Do you have any concerns about (i) proposed backout strategy for the ISO 20022 changes on the Saturday before the implementation date or (ii) the proposed fix-in-place strategy after on or after the implementation date?

> **IBC Comment:** The FRB states that, in the event of "significant problems" activating the ISO 20022 standard on the Saturday before the implementation date, it would have the ability to "back out" and revert to the legacy messaging format, and that each Fedwire participant would need to attest to its ability to "back out" as well. [Notice at 55606] While it is comforting to know that the implementation will likely not result in the unavailability of Fedwire due to contingency back-up planning, the fact that the ISO 20022 could fail and require all Fedwire participants to revert to the legacy system is concerning. It also means that participants will need to be fully engaged on that Saturday as well as implementation day, as they may need to roll back their institution's changes at a moment's notice.

They will also need to be on hand to keep the legacy system running and/or available during the activation until it is confirmed successfully complete. IBC requests the FRB to confirm that it will provide sufficient real-time updates on the activation day, as well as confirmation of final completion. Allowing a few Saturdays for testing before the "go-live" date would permit financial institutions to become more comfortable and familiar with the necessary upgrade(s) and still maintain their legacy software systems operational should they be necessary.

Thank you for the opportunity to share IBC's views on these matters.

INTERNATIONAL BANCSHARES CORPORATION

Dennis E. Nixon, President and CEO