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Via Electronic Submission

January 3, 2022

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

RE: [Docket No. OP-1613] New Message Format for the Fedwire® Funds Service

Dear Ms. Misback:

The Independent Community Bankers of America (“ICBA”)¹ appreciates the opportunity to provide comments to the Board of Governors of the Federal Reserve System (“Board”) on the proposal to adopt the ISO 20022 message format for the Fedwire® Funds Service on a single day. While ICBA fully supports the Fedwire Funds Service migrating away from a proprietary standard to the global ISO 20022 message format, ICBA has concerns with the heightened risk of a one-day implementation by November 2023. ICBA emphasizes the importance and value of further clarity with the rollout plan to reduce the potential for disruption and confusion in the market.

Background

The Federal Reserve Banks plan to adopt the ISO 20022 message format for the Fedwire Funds Service. The Board is requesting public comment on a revised plan for migrating the Fedwire Funds Service to the ISO 20022 message format. Specifically, the Board is proposing that the

¹*The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. ICBA is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education, and high-quality products and services.*

With nearly 50,000 locations nationwide, community banks constitute roughly 99 percent of all banks, employ nearly 700,000 Americans and are the only physical banking presence in one in three U.S. counties. Holding nearly \$5.9 trillion in assets, over \$4.9 trillion in deposits, and more than \$3.5 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers’ dreams in communities throughout America. For more information, visit ICBA’s website at www.icba.org.

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Federal Reserve Banks would adopt the ISO 20022 message format on a single day rather than in three separate phases, as previously suggested. As of the implementation date (i.e., the date on which the Fedwire Funds Service is scheduled to migrate to ISO 20022), all Fedwire Funds Service participants would be required to be able to send and receive fully enhanced ISO 20022 messages, and the proprietary message format for wires would no longer be supported. This single-day migration would be targeted no earlier than November 2023.

Adopting ISO 20022 for the Fedwire Funds Services is part of a broader set of strategic initiatives to enhance Federal Reserve payment services, including the development and launch of the FedNowSM Service and the potential expansion of operating hours for the Fedwire Funds Service and the National Settlement Service (“NSS”).

Summary of ICBA Comments

ICBA is supportive of the Federal Reserve Board’s efforts to migrate to ISO 20022 for the Fedwire Funds Service to utilize a richer and more structured format. The move will offer improved compliance scanning and screening and increase interoperability across clearing systems on a global scale. To that end, ICBA member banks are committed to the Fedwire modernization efforts by the Federal Reserve Banks. However, the Board’s proposal to adopt the ISO 20022 message format on a single day by November 2023 raises heightened concerns and issues.

Highlights of ICBA’s comments are as follows:

- A one-day conversion of the Fedwire Funds Service by November 2023 could introduce systemic risk to the overall U.S. payments system. Importantly, rushing the effort may lead to unintended consequences, especially if essential compliance data is not appropriately collected or information is dropped in the payment chain. Further, the potential concurrent timing of the Fedwire ISO 20022 migration and FedNow Service will place a great strain on some community banks, including their IT departments and vendor partners. The adoption of ISO 20022 format for Fedwire Funds Service will require significant system changes, including costs related to business processes and technology.
- ICBA strongly urges the Reserve Banks to postpone the November 2023 implementation date to allow community banks and their technology partners the appropriate time to prepare.
- ICBA believes the concurrent timeline for the corresponding migration of The Clearing House initiative with Fedwire Funds Service will ensure maximum interoperability.

- ICBA requests that the Board offer further guidance and clarity on the testing strategy of the Fedwire ISO 20022 conversion. ICBA encourages establishment of an implementation plan that is based on a detailed and rigorous evidence-based study of representative stakeholders of the Fedwire Funds Service pilot phase.
- ICBA also recommends a longer testing cycle than nine months in the new second depository institution testing (“DIT”) environment with initial testing of a smaller subset of the representative demographic. This will provide a better understanding of the future implementation plan’s potential challenges and issues.
- ICBA urges a flexible depository testing environment and recommends avoiding restricting production testing to alternating Saturdays.
- Significantly, ICBA has grave reservations with the proposed back-out strategy deadline the Saturday before deployment of the ISO 20022 changes and advocates reevaluating this strategy.

ICBA Specific Comments

The international payments standard ISO 20022 holds promise for interoperability with international clearing networks and other payment channels. ICBA applauds the Reserve Banks applying a holistic approach to implementing ISO 20022 across its different payment systems, the FedNow Service and the Fedwire Funds Service, which will provide a strong foundation for efficiencies and spur innovation. ICBA recognizes the need for Fedwire Funds Service to move away from a proprietary standard to ISO 20022 as soon as feasible. However, ICBA is firmly against any implementation plan and timeframe that threaten to leave community banks at a disadvantage due to any asymmetry of capabilities and resources. ICBA strongly urges the Board to consider the readiness of core processors, intermediary banks, and other service providers that community banks rely on for the payments processing when finalizing the testing plans and timing related to the Fedwire migration to ISO 20022. Crucially, ICBA stresses the need for a rigorous test plan and strategy for such a significant infrastructure change.

Single Day Implementation Strategy

With the global migration of real-time gross settlement networks to ISO 20022, ICBA recognizes the need for the U.S. wire conversion to the international standard. While achieving interoperability and avoiding the inefficiencies of supporting multiple formats is desirable, ICBA has serious concerns that a single day implementation of the Fedwire Funds Service by November 2023 could introduce disruption and systemic risk to the overall U.S. payments system.

Community banks are highly dependent on their core banking platforms, intermediary banks, and other technology solution and service providers for their wire capabilities. Any failure or error occurring during a complete infrastructure modernization scheduled on a single day could have severe downstream implications with numerous participants in the chain.

A detailed test schedule and implementation plan, combined with a smaller robust test strategy executed by representative stakeholders, would ease industry concerns of a single day rollout. ICBA recommends that any introduction of a timeline should happen following a pilot test phase to enable richer evaluation and establish a reasonable timeframe. A staggered testing strategy would mitigate the heightened risk from a one-day implementation.

Timing – November 2023 Rollout

ICBA cautions that utilization of the original rollout date is not practical given the pause in planning by the Federal Reserve for two years, exacerbated by competing priorities, and the absence of final specifications for the Fedwire Funds Service.

ICBA member banks and their technology partners interviewed to inform this response agreed they would make the ISO 20022 conversion happen within the proposed timeframe if required. However, small financial institutions would not achieve the benefits of ISO 20022. Worse, community banks may be inadvertently harmed if the process is rushed. The abbreviated lead time will be a challenge given small banks' heavy reliance on their technology solution partners that must implement these new changes. For example, the new specifications will incorporate additional data fields, including discrete address elements that offer enhanced regulatory compliance capabilities. These are widely divergent from the current processes. Updating the associated applications and the core system is no minor endeavor. Adjusting the input channels that community banks leverage to ingest payment information and the output mechanism of downstream processing systems the banks rely on to absorb the new data will take some time to develop, test and deploy.

Additionally, significant education on ISO 20022 will be needed, which the proposed schedule does not take into consideration. The FedLine Advantage solution used by many community banks is expected to migrate to the ISO 20022 interface at launch. Meanwhile, many technology solution providers are still undecided on the front-end systems (whether an ISO 20022 interface or a hybrid approach will be undertaken). No matter the scenario, most community banks are unlikely to be prepared for the profound adjustment in terminology. For example, references to originator and beneficiary are labeled as "debtor" and "creditor" in ISO 20022 language. Thus, an adjustment period will be needed to become familiar with the ISO 20022 vocabulary.

Further, ICBA commends the Reserve Banks' efforts to reduce cross-border interoperability issues if other clearing systems migrate to ISO 20022 before the Reserve Banks. The Reserve Banks developed a market practice to ensure all ISO 20022 data can be carried in the Fedwire Funds Service message format to mitigate the risk of data truncation with the new ISO 20022 data elements and longer character lengths. Given the steps put in place to reduce risk, ICBA stresses the need to take a measured approach to ISO 20022 conversion for the Fedwire Funds Service. A preferred schedule would be to postpone the Fedwire infrastructure transformation by twelve months to 2024 to allow for appropriate preparation by small banks and the wider community.

Resource Constraints

A critical challenge is the competing priorities resulting from similar timeframes of the Fedwire ISO 20022 migration and the Federal Reserve instant payment service, FedNow launch. The concurrent timing will thrust significant work and additional burdens on community banks and their technology partners preparing for both initiatives. Competing resources will incorporate an added level of complexity and enterprise risk. Given these challenges, ICBA advocates a gap between the launch of the two efforts – preferably up to a year – to provide community banks with a reasonable interval to prepare.

An additional issue raised by community bankers is the consideration for budget cycles. Adopting the ISO 20022 format will involve significant investment from each institution as it will require development work by their technology partners and corresponding testing before implementation.

Finding additional funding for the Fedwire conversion is not a trivial matter. More expenses may be incurred if community banks, or correspondent banks seek alternate solutions to their existing technology providers for their customer interfaces for sending wire transfers. The new wire formats will also necessitate internal process changes and might require more tools tailored for operational purposes to manage and reconcile the richer data format (such as for appropriate monitoring and screening).

Software platform providers, in turn, require development to occur the year prior in 2022 to go live by November 2023. Budget planning cycles, which are an annual process and conclude by early Fall, would need to occur a year in advance, and therefore approved by November 2021, in addition to ramping up development. Although off-cycle funding is feasible, and all participants stated it would be workable, it is not ideal.

Besides resources constraints, the proposed timeframe presents other issues. The lack of final specifications will further delay release planning for technology solution providers and, therefore, the rollout to community banks. At the same time, while the goal of the technology providers would be to drive toward a single interface leveraging ISO 20022, by the November 2023 date, community banks and their partners recognize that some may not be ready to support the new format by November 2023. Thus, they will likely need to support both legacy and ISO 20022 formats, requiring additional resources and expense.

Simultaneous Fedwire Funds Service and The Clearing House Interbank Payment System (“CHIPS”) Rollout

Most ICBA member banks and their technology partners do not support CHIPS and thus would not be materially impacted by a synchronized rollout with resource constraints. However, coordination and continued interoperability between the private and public sector wire transfer systems and alignment of timeframes of the ISO 20022 migrations could offer market benefits.

Federal Reserve Depository Institution Testing Strategy and Requirements

As the Board states, to reduce the risks associated with a single-day implementation of the ISO 20022 messages for the Fedwire Funds Service, the Reserve Banks would require testing in three different environments. Specifically, the Reserve Banks would enable authorized Fedwire Funds Service participants and software vendors to use the Readiness Portal feature within MyStandards® to ensure that their ISO 20022 messages conform to Fedwire Funds Service requirements (i.e., data elements are correctly formatted with mandatory fields and lengths, and use valid codes and characters).

Following this phase, participants would perform functional testing with the Fedwire Funds Service in the Reserve Banks’ depository institution testing (“DIT”) environment and production environment. The Reserve Banks plan to introduce a second DIT environment nine to twelve months ahead of the implementation date to provide participants with a dedicated environment for testing ISO 20022. The Reserve Banks would also offer opportunities for participants to conduct coordinated testing in the second DIT environment so that they can test their ability to send and receive ISO 20022 messages with each other.

ICBA believes a testing period of no less than twelve months in the new second DIT environment is reasonable with an implementation date of November 2024. The timeframe for most community bank testing will predominantly depend on their vendor partners’ capabilities. A staggered and flexible testing strategy would reduce risks, including potential regulatory compliance issues, as not all participants will be prepared at the same time. As such, ICBA

encourages the Reserve Banks to ensure the DIT environment is wholly accessible to all participants, allowing them to perform functions testing when it best suits their business needs.

Of note, many ICBA community banks have not explored the MyStandards Readiness Portal, and those participants who have viewed the platform have found it slow and complicated to navigate. Given the lack of experience with the platform by community banks, it is difficult to assess the length of time they will need in the Readiness Portal.

The Board further states that it will provide opportunities for participants to test their ISO 20022 messages in the production environment on select Saturdays about two to three months before the implementation date. However, limiting the testing platform and alternating days between the old and the new environment will challenge participants of the Fedwire ecosystem. Community banks will be at varying stages of implementation at different times, and banks should be able to test according to their appropriate needs. With an infrastructure change of this magnitude, ICBA strongly urges the Federal Reserve to offer a flexible testing platform and schedule so as not to leave community banks at a disadvantage.

Back-out Strategy Before Migration to ISO 20022

The Federal Reserve Board states that if the Reserve Banks encounter significant problems activating ISO 20022 on the Saturday before the implementation date, the Reserve Banks would have the ability to “back-out” the ISO 20022 changes and return to the legacy format temporarily. Fedwire Funds Service participants would need to attest to their ability to back out their ISO 20022 changes when they conduct their production testing. ICBA members expressed deep concern with the proposed back-out strategy. This type of approach is not optimal when, in some cases, change controls can take a week or so to put into motion. ICBA recommends a longer timeframe to back-out.

Additionally, the Federal Reserve Board notes that if the Reserve Banks encounter a significant issue on or after the implementation date, the Reserve Banks would not be able to return to the legacy format. Rather, the Reserve Banks would invoke a “fix-in-place” strategy to address the issue. Such a fix-in-place strategy would require the Reserve Banks to implement a software update to address any issue as soon as the fix had been identified and fully tested. As the ability of community banks to rapidly deploy the Reserve Banks software will be highly dependent on their solution providers, ICBA emphasizes a rigorous and robust test strategy will be needed to reduce such risk.

Other Comments

ICBA recommends that the Board make the following accommodations:

- **Conduct an educational outreach.** ICBA suggests the Reserve Banks launch a significant educational effort to increase awareness of Fedwire migration to ISO 20022 to market participants, including offering guidance on the new terminology and the impact of the enhanced transaction details on input applications and downstream processes.
- **Expand the operating hours for Fedwire Funds Service and National Settlement Service (NSS).** As stated in past comment letters to the Board,² ICBA reiterates that extension of the Federal Reserve discount window to accommodate evenings, weekends, and holidays is a vital step toward payments improvement and should be a priority for the Reserve Banks. Expanded hours for these services will bring broad benefits to public and private sector stakeholders as well as improve the payment settlement services for ACH, checks, and wire transfers. In light of the systemic importance of the Fedwire Funds Service and NSS, ICBA urges the Board to keep this initiative on an accelerated schedule.

ICBA appreciates the opportunity to provide comments in response to this request. ICBA supports the Reserve Banks' evolution and improvement of the U.S. payment system to modernize the Fedwire Funds Service and migrate away from a proprietary format. The international payments standard ISO 20022 can bring efficiencies and cost savings to community banks in the long term.

If you have any questions or require additional information about ICBA's statements, please do not hesitate to contact me at Nasreen.Quibria@icba.org or (202) 659-8111.

Sincerely,

/s/

Nasreen Quibria
Vice President, Emerging Payments and Technology Policy

² See Quibria, Nasreen, "[Docket No. OP-1749] Potential Modifications to the Federal Reserve Policy on Payment System Risk to Expand Access to Collateralized Intraday Credit, Clarify Access to Uncollateralized Credit, and Support the Deployment of the FedNow Service," Aug. 2, 2021: https://www.icba.org/docs/default-source/icba/advocacy-documents/letters-to-regulators/federal-reserve-psr-policy-comment-letter.pdf?sfvrsn=293a0417_2.