

Response to Federal Reserve System consultation docket number OP-1613 – New message format for the Fedwire Funds Service

Submission by Barclays

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Consultation Questions

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

We agree with the Federal Reserve's change in ISO 20022 implementation strategy for the Fedwire Funds Service. A phased approach to implementation of major technology changes can lower risks. But, it is not without its own challenges. A phased approach may increase cost, complexity and require interim solutions.

A "big bang" implementation may reduce complexity and cost. But, a shift to a single day implementation increases the overall risks of the programme. The payment system operator needs to execute more things flawlessly, but so do the many institutions that connect to the payment system.

If the Federal Reserve does shift to a single day implementation strategy it will need to assure itself that has reflected the changed risks in its programme. The Federal Reserve may want to reconsider its "go, no go" criteria and communication with the market.

We believe it is important for all participants to understand the status of the programme. The relative readiness of all participants for the implementation. If a certain percentage of the market are not ready for implementation what the Federal Reserve intends to do.

Question 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?

We have no preferred date. We consider that question two and question three are linked.

If the Federal Reserve opts to align its ISO 20022 migration with The Clearing House's (TCH) CHIPS payment system – currently planned for 19 November 2023. Then that should be the implementation date.

If the Federal Reserve does not opt for an aligned migration, then the Federal Reserve should provide a suitable "firebreak" between the CHIPS migration and any other planned international

migrations before planning its own ISO 20022 migration. The benefit of the “firebreak” is that it enables participants to assure itself that the most recent ISO 20022 migration has worked as expected. If technical fixes are required, then there is sufficient time to do them. Before the programme teams can focus on the next migration.

Question 3: Should the Reserve Banks and TCH [The Clearing House] implement ISO 20022 for the Fedwire Funds Service and CHIPS on the same day?

There is merit in aligning the shift with the CHIPS transition. As the effective transition of US high-value payments to ISO 20022 will be completed in one go. This is similar to the approach taken by comparable Eurozone payment systems (TARGET2 and EURO1). However, there are also resiliency benefits from separating the two migrations. Aligning the migrations, could lead to both systems and / or participants could encounter problems on the same day. Separate migrations would mean that users of CHIPS would have access an alternative high-value payment system if their ISO 20022 migration is unsuccessful.

We believe that Federal Reserve should work with The Clearing House (TCH) to consider the benefits and risks of an aligned migration. As in our answer to question two, if the Federal Reserve decides not to align its migration with the CHIPS migration then it should ensure that there is a suitable “firebreak” between the CHIPS migration (and any other international ISO 20022 migration) and the Fedwire Fund Service migration.

Question 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 Bank’s launch of the FedNow service in 2023).

Payment systems are critical national infrastructure. They must work, and participants have to be available to make and receive payments. Changes to these systems are a major challenge. The Fedwire Funds Service is one of the most important payment systems in the world, and the migration to ISO 20022 is a major change for that system. But, Fedwire is not the only system planning a migration to ISO 20022 in the next few years. The US is not the only currency planning such a shift. There are ISO 20022 migrations planned in major currency zones in Europe and Asia. From our perspective the biggest challenge is ensuring that each and every one of the ISO 20022 migrations are successful.

Considering the amount of ISO 20022 migration events occurring over the next few years, we think they need to be scheduled in a way that minimises resource contention between the different programmes. We think there needs to be “firebreaks” between each migration. We urge the Federal Reserve to work with the other payment system operators and the SWIFT messaging service to ensure that a sensible international schedule is maintained. Particularly if programmes encounter difficulties and require rescheduling. We do not think that if a programme is running late it should simply push itself back without consideration of the likely concertina effect on other international ISO 20022 migrations.

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

We have no significant concerns. However, as the Federal Reserve's planning progresses we would want to understand further details on the testing and implementation strategy. We observe that the Fedwire Funds Service has a lot of participants. Managing the readiness of all these participants will require careful coordination and communication. The Federal Reserve should be clear about what would influence its "go, no go" decision, and what it expects to happen to participants or groups of participants who are not ready when the Federal Reserve migrates.

Question 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 [Depository Institution Testing] environment?

Based on the experience of ISO 20022 implementation for other payment systems, and considering the scale of Fedwire changes we would need at least 4 to 6 months' window for Mystandards readiness portal testing.

Question 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?

Based on the experience of ISO 20022 implementation for other Payment Systems like CHAPS, T2 etc. and also considering the scale of the changes and as mentioned in the consultation paper 9 to 12 months testing window would be sufficient.

Question 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?

We have no concerns. However, the "backout" strategy should be part of the "dress rehearsal" activities. It should be tested in advance in both the testing and production environments.