



Report to the Congress on the Use of the ACH System and Other Payment Mechanisms for Remittance Transfers to Foreign Countries

April 2017



Report to the Congress on the Use of the ACH System and Other Payment Mechanisms for Remittance Transfers to Foreign Countries

April 2017

This and other Federal Reserve Board reports and publications are available online at
www.federalreserve.gov/publications/default.htm.

To order copies of Federal Reserve Board publications offered in print,
see the Board's Publication Order Form (www.federalreserve.gov/files/orderform.pdf)
or contact:

Publications Fulfillment
Mail Stop N-127
Board of Governors of the Federal Reserve System
Washington, DC 20551
(ph) 202-452-3245
(fax) 202-728-5886
(e-mail) Publications-BOG@frb.gov

Contents

Introduction	1
Developments	3
Cross-Border Payment Improvements	3
Changes in Rules and Regulations Related to Cross-Border Payments	4
Economic Sanctions and Anti-Money Laundering	5
Adoption Rates	7

Introduction

Section 1073(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) requires the Board of Governors of the Federal Reserve System (the Board) to provide biennial reports to the Congress over a 10-year period regarding the Board's work with the Federal Reserve Banks (Reserve Banks) and the U.S. Department of the Treasury (Treasury) to expand the use of the automated clearing house (ACH) system and other payment mechanisms for remittance transfers to foreign countries.¹ Section 1073(b) requires the Board to

¹ Pub. L. No. 111-203, 124 Stat. 2065 (2010). Section 1073(b) of the Dodd-Frank Act is codified as 12 U.S.C. 5601(b). A remittance transfer is an electronic transfer of funds—requested by a

include in its report an analysis of adoption rates of international ACH transactions (IATs), rules, and formats; the efficacy of increasing adoption rates; and potential recommendations to increase adoption. Pursuant to this statutory requirement, the Board is issuing this fourth biennial report.²

consumer located in the United States—to a consumer or business in a foreign country. 12 U.S.C. 5601(a).

² The Board consulted with the Reserve Banks and the Treasury to develop this report. The last report was published in May 2015. See Board of Governors, *Report to the Congress on the Use of the ACH System and Other Payment Mechanisms for Remittance Transfers to Foreign Countries* (Washington: Board of Governors, May 2015), www.federalreserve.gov/publications/other-reports/files/ACH_report_201505.pdf.

Developments

This section highlights key developments since the Board's third biennial report in 2015, including updates on cross-border payment improvements, changes to laws and regulations pertaining to cross-border payments, and issues relating to economic sanctions and anti-money laundering (AML) requirements.

Cross-Border Payment Improvements

Over the past two years since the 2015 report, there have been several efforts underway to improve cross-border payments. As noted in the Board's 2015 report, the Federal Reserve published *Strategies for Improving the U.S. Payment System* (Strategies Paper) in January 2015, which outlined five desired outcomes for consumer and business payments, covering speed, security, efficiency, international (cross-border payments), and collaboration. The paper recognized the need for enhancements to cross-border payments, particularly "[b]etter choices for U.S. consumers and businesses to send and receive convenient, cost-effective and timely cross-border payments."³ Several of the strategies outlined in the paper could result in improvements to cross-border payments. One of the strategies was the establishment of a Faster Payments Task Force (task force), which has the mission of identifying effective approaches for implementing a safe, ubiquitous, faster payments capability in the United States.⁴ The task force recognized early on the importance of

cross-border payments as part of the overall payments improvement effort. In particular, in January 2016, the task force published its *Faster Payments Effectiveness Criteria* (effectiveness criteria), which outlines desirable attributes of future faster payment capabilities, including a criterion on cross-border functionality. Specifically, the task force believed it was important that capabilities should "...enable convenient, cost-effective, timely, secure and legal payments to and from other countries."⁵ In early 2016, the task force solicited proposals for faster payment solutions that sought to address the effectiveness criteria. Twenty-two proposals were submitted, and some of those parties responding with submissions may elect to have their proposals released to the public, along with an assessment against the effectiveness criteria, in part two of the task force's final report in mid-2017.⁶ Beyond the proposals submitted through the task force process, the task force believed that, by highlighting cross-border functionality as a desired attribute in its effectiveness criteria, it could encourage further development of cross-border enhancements in the payments market.

The Strategies Paper also included a strategy related to payments efficiency, including efficiency in cross-border payments. As part of this effort, in March 2016 the Reserve Banks and The Clearing House (TCH) announced that they planned to implement the ISO 20022 payment format standard for their domestic and cross-border wire payments

³ Federal Reserve System (2015), "Strategies for Improving the U.S. Payment System," (Washington: Board of Governors and Federal Reserve System, January 2015), 2, <https://fedpaymentsimprovement.org/wp-content/uploads/strategies-improving-us-payment-system.pdf>.

⁴ Federal Reserve System (2015), "Strategies for Improving the U.S. Payment System," (Washington: Board of Governors and Federal Reserve System, January 2015), 3, <https://fedpaymentsimprovement.org/wp-content/uploads/strategies-improving-us-payment-system.pdf>. The task force is comprised of representatives from the following market segments: large financial institutions, medium financial institutions, small financial institutions, government (operations not regulator), business end-users, consumer interest organizations, non-bank

providers, and other industry segments such as industry trade organizations and regulators.

⁵ Faster Payments Task Force, *Faster Payments Effectiveness Criteria*, (Federal Reserve Banks, January 2016), 9, <https://fedpaymentsimprovement.org/wp-content/uploads/fptf-payment-criteria.pdf>.

⁶ Part one of the task force's final report provided background on its work and motivation for pursuing faster payments solutions in the context of the current payments landscape. See Faster Payments Task Force, *The U.S. Path to Faster Payments, Final Report Part One: The Faster Payments Task Force Approach*, (Faster Payments Task Force, January 2017), <https://fedpaymentsimprovement.org/wp-content/uploads/path-to-faster-payments.pdf>.

systems, Fedwire Funds Service and the Clearing House Interbank Payments System (CHIPS), respectively. The ISO 20022 standard helps cross-border payment efficiency by providing a structured format for remittance information.⁷ This structured format can facilitate cross-border payments by streamlining the exchange of payments information across payment systems that have adopted the ISO 20022 standard in various countries. The Reserve Banks and TCH will coordinate on a multi-year adoption plan. While both announced a preliminary implementation approach and timeline in 2016, detailed planning is underway to refine the implementation strategy, which will be announced to the industry when complete.

SWIFT's global payments innovation (gpi) initiative, which was announced in December 2015, is another effort focused on improving the speed and transparency of cross-border payments in wire-transfer systems.⁸ Domestically, a number of U.S. banks are participating in the initiative. SWIFT identified four areas for improvement in correspondent banking that it seeks to address through the gpi initiative—same-day availability of funds, transparency of fees, payments tracking, and transferable payment information.⁹ A key innovation of the initiative, launched in early 2017, is the gpi Tracker feature, which provides institutions an end-to-end view of the status of their payments, such as confirmation when the payment gets credited to the receiver's account and visibility that remittance information has been trans-

ferred unaltered.¹⁰ This improves transparency and traceability of cross-border payments, which has been difficult in the past. In support of the gpi initiative, the Reserve Banks and TCH are also supporting a market practice for Fedwire Funds Service participants and CHIPS participants that are using the SWIFT gpi service to carry gpi-related information in respective wire message formats.¹¹

As described in the 2015 report, the Reserve Banks offer an international ACH service, called FedGlobal[®] ACH Payments (FedGlobal).¹² FedGlobal facilitates remittance transfers and other cross-border payments to a number of countries. In December 2015, the Federal Reserve announced its decision to discontinue the FedGlobal ACH Account-to-Receiver (A2R) service. The A2R function was originally implemented in 2010 for remittance transactions to Latin American countries, allowing for financial institutions "...to send payments from their customers to unbanked receivers abroad."¹³ Successful financial inclusion efforts in Mexico and limited reach to destinations in Latin America contributed to a lack of consumer demand for the service option, limiting its overall benefit in the market and supporting its discontinuation.

Changes in Rules and Regulations Related to Cross-Border Payments

In 2016 and 2017, NACHA The Electronic Payments Association (NACHA) made and proposed various modifications to its Operating Rules as they relate to cross-border payments.¹⁴ In 2016, NACHA implemented a technical change to record-formatting rules that helps to ensure that a sending (domestic or for-

⁷ ISO 20022 is the standard for financial messaging created by the International Organization for Standardization. See "ISO 20022 Universal financial industry message scheme," www.iso20022.org/.

The ISO 20022 payment format standard is also being considered for the domestic retail ACH system. At the September 2016 Sibos Community Session, it was announced that the ACH effort is currently focused on integration and mapping to ISO 20022, rather than a full conversion of ACH formats; see Sibos, "The Road to Adoption of ISO 20022 in the United States," last modified September 27, 2016, <https://fedpaymentsimprovement.org/wp-content/uploads/092716-road-iso-adoption-usa.pdf>. Also see Federal Reserve Financial Services, "The Federal Reserve is making strides to adopt ISO[®]20022 in the U.S.," last modified March 2016, www.frb.services.org/fedfocus/archive_perspective/perspective_0316_01.html.

⁸ SWIFT is an international cooperative offering global standardized financial messaging services. See SWIFT, www.swift.com/about-us.

⁹ See SWIFT, "SWIFT Announces Global Payments Innovation Initiative," press release, December 10, 2015, www.swift.com/insights/press-releases/swift-announces-global-payments-innovation-initiative.

¹⁰ See SWIFT, "Major Global Transaction Banks are Live with SWIFT gpi," press release, February 16, 2017, www.swift.com/news-events/press-releases/major-global-transaction-banks-are-live-with-swift-gpi.

¹¹ See SWIFT, "US Payment Market Infrastructures Agree to Support SWIFT gpi Tracking of Cross-Border Payments," press release, March 13, 2017, www.swift.com/news-events/press-releases/us-payment-market-infrastructures-agree-to-support-swift-gpi-tracking-of-cross-border-payments.

¹² See Board of Governors, *Report to the Congress on the Use of the ACH System and Other Payment Mechanisms for Remittance Transfers to Foreign Countries*, (Washington: Board of Governors, May 2015), 4, www.federalreserve.gov/publications/other-reports/files/ACH_report_201505.pdf.

¹³ See Federal Reserve Bank of Atlanta, "Americas Center: Annual Review," www.frbatlanta.org/americascenter/annualreview/2010/highlights-english.aspx.

¹⁴ See "Minor Rules Topics," NACHA, last modified August 18, 2016, www.nacha.org/rules/minor-rules-topics.

eign) institution is identified for outbound IATs. This change provides transparency around the origin of the funds. In early 2017, NACHA requested comment on further technical changes to provide additional information about parties to IAT entries, specifically regarding date of birth and split payments.¹⁵ These proposals are in response to requests from the industry to resolve issues related to financial institutions' ability to fully evaluate IAT entries for compliance with OFAC sanctions policies.

Also, the Consumer Financial Protection Bureau's (CFPB) remittance transfer rule, an amendment to Regulation E, establishes disclosure, error resolution, and other requirements for depository institutions that offer cross-border remittance transfer services.¹⁶ On October 5, 2016, the CFPB issued its final prepaid account rule, also part of Regulation E, which sets out consumer protection rules for prepaid accounts, including prepaid cards used for cross-border payments.¹⁷ The final rule makes several revisions to the rules governing remittance transfers in Regulation E that are intended to continue the current application of those rules to prepaid products. The effective date for the provisions of the prepaid account rule that affect the rules regarding remittances is April 2018 (having been delayed from an original effective date of October 2017).¹⁸ Additionally, as mandated by the Dodd-Frank Act, the CFPB will undertake an assessment of the remittance transfer rule in a report it expects to release by October 2018.¹⁹

Economic Sanctions and Anti-Money Laundering

Still persisting in the marketplace are concerns regarding compliance with economic sanctions and AML requirements, including the Bank Secrecy Act (BSA). Since the last report, much research and guidance highlighted and responded to concerns of different market segments within the remittance industry. A data analysis of SWIFT correspondent payments between 2011 and 2015, a portion of which may be remittance payments, suggests that the volume of payments increased while the value declined. Furthermore, the number of active correspondents declined over the same time period, suggesting increased concentration in correspondent banking activity.²⁰ Researchers have examined the degree to which institutions are reducing or closing correspondent banking relationships due to factors such as regulatory and enforcement concerns.²¹ Institutions also cite other factors, such as profitability, risk appetite, concerns regarding illicit financial risk, potential industry reputational risk, and strategically assessing global footprint as other reasons for closing correspondent banking relationships.²² The decision to open, close, or decline a particular account or relationship is generally made by a bank, without involvement by its supervisor. A number of recent efforts have clarified regulatory expectations in this area, such as the Treasury's joint fact sheet on AML and sanctions enforcement, the Basel Committee on Banking Supervision's update to the guidelines *Sound management of risks related to money laundering and terrorist financing*, and the Financial Action

¹⁵ See "Request for Comment – IAT Topics – Date of Birth, and Split Payments," NACHA, www.nacha.org/rules/request-comment-iat-topics-%E2%80%93-date-birth-and-split-payments.

¹⁶ 12 CFR 1005, Subpart B.

¹⁷ See Prepaid Accounts Under the Electronic Fund Transfer Act (Regulation E) and the Truth In Lending Act (Regulation Z), 81 Fed. Reg. 83934 (November 22, 2016), www.federalregister.gov/documents/2016/11/22/2016-24503/prepaid-accounts-under-the-electronic-fund-transfer-act-regulation-e-and-the-truth-in-lending-act; see also "Prepaid Rule," Consumer Financial Protection Bureau, www.consumerfinance.gov/policy-compliance/guidance/implementation-guidance/prepaid-rule/.

¹⁸ See Prepaid Accounts Under the Electronic Fund Transfer Act (Regulation E) and the Truth in Lending Act (Regulation Z), released April 20, 2017, www.consumerfinance.gov/policy-compliance/rulemaking/final-rules/prepaid-accounts-under-electronic-fund-transfer-act-regulation-e-and-truth-lending-act-regulation-z-delay-effective-date/. Publication in the *Federal Register* is forthcoming.

¹⁹ 12 U.S.C. 5512(d); see also Scott Fulford and Paul Rothstein, CFPB "We are seeking comment on our plan for assessing the remittance rule," (Mar. 17, 2017) www.consumerfinance.gov/about-us/blog/cfpb-seeks-comment-its-plan-assessing-remittance-rule/.

²⁰ The Committee on Payments and Market Infrastructures (CPMI) analyzed SWIFT data from 2011 to 2015 in its report on correspondent banking. See Committee on Payments and Market Infrastructures, *Correspondent banking*, (Committee on Payments and Market Infrastructures, July 2016), www.bis.org/cpmi/publ/d147.pdf.

²¹ See Michaela Erbenová, Yan Liu, Nadim Kyriakos-Saad, Alejandro López-Mejía, Giancarlo Gasha, Emmanuel Mathius, Mohamed Norat, Francisca Fernando, and Yasmin Almeida, "The Withdrawal of Correspondent Banking Relationships: A Case for Policy Action," (Washington: International Monetary Fund, June 2016), www.imf.org/external/pubs/ft/sdn/2016/sdn1606.pdf. *The Financial Times* also touched upon this topic noting how banks often sever ties with correspondent banks instead of working with them on bettering security. See Bertrand Badré and Mark Carney, "Keep Finance Safe but Do Not Shut Out the Vulnerable," *The Financial Times*, (June 2), www.ft.com/content/19ab0272-085a-11e5-85de-00144feabdc0.

²² See The World Bank, *Withdrawal from Correspondent Banking: Where, Why, and What to Do about It*, (Washington: The World Bank, November 2015), <http://documents.worldbank.org/curated/en/113021467990964789/pdf/101098-revised-PUBLIC-CBR-Report-November-2015.pdf>.

Task Force's guidance *Correspondent Banking Services*.²³ Some nonbank payment providers, such as money service businesses (MSBs), have also experienced account closures.²⁴

To provide more clarity on the environment, and in response to the Group of Twenty's (G20) Global Partnership for Financial Inclusion request for a remittance study within the G20 nations, the World Bank conducted a survey to gather comprehensive information on the scope, drivers, and effects of potential challenges faced by money transfer operators (MTOs) in various jurisdictions.²⁵ The results were published in October 2015, and touched upon

several issues: the recent trend of some global banks withdrawing from correspondent banking relationships or limiting services for MTOs, operational requirements for remittance transfers, supervision of MTOs, the need for continued governmental guidance for the MTO sector for compliance requirements, and additional guidance to banks for providing services to MTOs.²⁶ The results further indicate that many banks do not feel as though they can rely on the supervision of the MTO sector to inform risk-based decisions on opening and maintaining accounts for MTO customers.²⁷ Since this survey, dialogue has continued on these issues, including through the Stakeholder Dialogue on De-Risking Workshop, hosted by the World Bank and the Association of Certified Anti-Money Laundering Specialists (ACAMS) that included a discussion of potential next steps to address issues in the remittance market.²⁸

²³ See "U.S. Department of the Treasury and Federal Banking Agencies Joint Fact Sheet on Foreign Correspondent Banking: Approach to BSA/AML and OFAC Sanctions Supervision and Enforcement," U.S. Treasury, press release, August 30, 2016, www.treasury.gov/press-center/press-releases/Documents/Foreign%20Correspondent%20Banking%20Fact%20Sheet.pdf; the Bank for International Settlements Committee on Banking Supervision, *Sound management of risks related to money laundering and terrorist financing*, (Basel Committee on Banking Supervision, February 2016), www.bis.org/bcbs/publ/d353.pdf; and Financial Action Task Force, *Correspondent Banking Services*, (Financial Action Task Force, October 2016), www.fatf-gafi.org/media/fatf/documents/reports/Guidance-Correspondent-Banking-Services.pdf.

²⁴ In May 2016, the Conference of State Bank Supervisors (CSBS) and Money Transmitter Regulators Association (MTRA) jointly released a white paper highlighting the current issues faced by MSBs, including termination of accounts and general market misunderstanding of their importance, and an overview of beneficial state regulatory requirements for MSBs. See Conference of State Bank Supervisors and Money Transmitter Regulators Association, "The State of State Money Services Businesses Regulation and Supervision," (Washington: Conference of State Bank Supervisors and Money Transmitter Regulators Association, May 2016), www.csbs.org/regulatory/Cooperative-Agreements/Documents/State%20of%20State%20MSB%20Regulation%20and%20Supervision.pdf.

²⁵ The term "money transfer operator" in this report means nonbank international remittance service providers, as defined by the World Bank in *Reporting on the G20 Survey on De-Risking Activities in the Remittance Market*, (Washington: The World Bank, October 2015), <http://documents.worldbank.org/curated/en/679881467993185572/pdf/101071-WP-PUBLIC-GPFI-DWG-Remittances-De-risking-Report-2015-Final-2.pdf>.

The World Bank also conducted a survey in 2015 at the request of the Financial Stability Board to identify the factors driving banks to withdraw from foreign correspondent banking and the potential effects this may have on customers. See The World Bank, *Withdrawal from Correspondent Banking: Where, Why, and What to Do about It*, (Washington: The World Bank, November 2015), <http://documents.worldbank.org/curated/en/113021467990964789/pdf/101098-revised-PUBLIC-CBR-Report-November-2015.pdf>.

²⁶ See The World Bank, *Reporting on the G20 Survey on De-Risking Activities in the Remittance Market*, (Washington: The World Bank, October 2015), <http://documents.worldbank.org/curated/en/679881467993185572/pdf/101071-WP-PUBLIC-GPFI-DWG-Remittances-De-risking-Report-2015-Final-2.pdf>.

²⁷ Ibid.

²⁸ The "Stakeholder Dialogue on De-Risking" hosted by the World Bank and ACAMS, provided a platform for participants to share findings and discuss issues such as the concept of de-risking, law enforcement, correspondent banking, others generally affected by de-risking, non-profits, MSBs, international standards setting. See The World Bank, *Stakeholder Dialogue on De-Risking: Findings and Recommendations*, (Washington: The World Bank, 2016), <http://documents.worldbank.org/curated/en/397411476868450473/pdf/109337-WP-StakeholderDialogueonDerisking-PUBLIC-ABSTRACT-SENT.pdf>.

Adoption Rates

As of December 2016, of the depository institutions completing the Call Report, 3,290 reported offering remittance services to consumers.²⁹ Of those institutions, 471 (14.3 percent) provided the option to send cross-border payments via ACH transfers, which use the IAT format.³⁰ Over the two years since the prev-

ious report, commercial IAT volume grew 43.2 percent, while overall ACH volume grew 10.9 percent (as shown in Table 1).³¹ Through FedGlobal, the Reserve Banks processed 0.2 percent of the total commercial IAT volume handled by the ACH operators in 2016.³²

²⁹ This figure is based on depository institutions that complete the Consolidated Report on Condition and Income (Call Report). The Call Report provides financial data regarding condition and results of operations of most institutions insured by the Federal Deposit Insurance Corporation. In addition, insured credit unions report the number of international remittances originated year-to-date but do not collect information on the type of service used. These data are collected through the National Credit Union Administration.

³⁰ The IAT format, a standard entry classification adopted in 2009, does not distinguish among consumer, business, or government transactions. The IAT format replaced two prior formats—consumer cross-border payment and corporate cross-border payment originally established in 1999—that were deter-

mined to be inadequate for regulatory compliance purposes. The IAT format allows depository institutions and ACH operators to identify IAT payments.

³¹ “Commercial” refers to payments initiated by a business or a consumer but not by the U.S. government. The portion of IATs that are “remittance transfers” as defined by section 1073(a) of the Dodd-Frank Act is not determinable from available data.

³² In 2016, the two U.S. ACH operators processed 20.3 billion total ACH transactions, of which 78.2 million (0.4 percent) were commercial IATs. In 2014, the two U.S. ACH operators processed 18.3 billion total ACH transactions, of which 54.6 million (0.3 percent) were commercial IATs.

Table 1. International ACH Transactions (IATs), 2012–16
(number of transactions, except as noted)

	2012	2013	2014	2015	2016	Change 2014–2016 (percent)
Total IAT volume	42,360,429	44,580,817	54,617,616	68,999,501	78,225,428	43.2
Commercial credits	3,660,149	3,979,201	4,820,058	6,474,867	7,516,652	55.9
Commercial debits	38,700,280	40,601,616	49,797,558	62,524,634	70,708,776	42.0
FedGlobal IAT volume	151,244	107,082	112,664	137,619	151,030	34.1
Commercial credits	139,693	87,880	92,703	119,057	134,904	45.5
Commercials debits	11,551	19,202	19,961	18,562	16,126	-19.2
Memo item (number of transactions in billions) ¹ :						
Total ACH	16.8	17.6	18.3	19.3	20.3	10.9

Note: Sources for the IAT volume data are the two ACH operators, FedACH and the Electronic Payments Network (EPN). The data include “inbound” and “outbound” IAT payments. FedGlobal IAT volume reflects the subset of IAT payments that the Reserve Banks handle as gateway operator.

¹ Calculations in this table may be affected by rounding.

As shown in table 1, between 2014 and 2016, FedGlobal ACH commercial IAT volume increased 34.1 percent.³³ This increase can be primarily attributed to an increase of roughly 30,000 payments exchanged with Europe.³⁴ In value terms (not shown), FedGlobal ACH commercial IAT value

³³ In 2016, the median value of FedGlobal commercial credits and debits was \$1,834 and \$155, respectively.

³⁴ Transaction volume to Canada represents 51.1 percent of FedGlobal ACH commercial volume in 2016, with 77,222 of 151,030 total FedGlobal ACH commercial transactions. Mexico

increased 111 percent to \$4.1 billion between 2014 and 2016. This increase can be attributed to the Europe and Canada Services.³⁵

experienced a modest 3 percent decline in commercial volume between 2014 and 2016.

³⁵ The total value of IAT transactions handled through FedGlobal ACH was \$1.94 billion in 2014. A \$1.5 billion increase from vendor/supplier payments to Canada between 2014 and 2016 was a primary contributor to the increase in value. Additionally, the value of IAT transactions for Europe increased by \$650 million, a 156 percent rise.

www.federalreserve.gov

0417

