

January 04, 2022

Ann E. Misback

Secretary, Board of Governors of the Federal Reserve System

RE: Docket No. OP – 1613; New Message Format for the Fedwire® Funds Service

Dear Ms. Misback:

The Payments Risk Committee ("PRC") appreciates the opportunity to provide comments to the Board of Governors of the Federal Reserve System ("Board") in response to its request for comment ("FR Notice") on New Message Format for the Fedwire® Funds Service ("Fedwire"). The PRC is a private-sector organization sponsored by the Federal Reserve Bank of New York ("New York Fed"). The PRC's membership, drawn from financial firms, meets at regular intervals to identify and analyze risk issues in payment, clearing, and settlement (PCS) of financial transactions.¹ The primary goal of the PRC is to foster enhancements to the safety and efficiency of financial market infrastructure, which includes identifying opportunities to strengthen the clearing and settlement of financial transactions, and to inform the Federal Reserve about developments, conditions, and practices in PCS activities. The views expressed in this document are the views of the PRC only. Nothing herein reflects official views of the New York Fed, the Board, or any other entity within the Federal Reserve System. We appreciate the opportunity to comment on the important issues addressed in this FR Notice.

The PRC recognizes potentially differing views in the industry on the Federal Reserve's considerations in adopting the ISO® 20022 message format ("ISO 20022") for Fedwire, specifically with regard to the timing of such migration and coordination with similar migrations being planned by the CHIPS® funds-transfer system ("CHIPS").² Given the remit of the PRC and its view that maintaining the safety, soundness, and efficiency of payment systems is a critical goal of both the public and private sectors, the PRC's comments focus on the interaction and dependencies between the Fedwire and CHIPS ISO 20022 migration programs and the importance of ensuring that both programs, individually

¹ The current members of the PRC represent Bank of America N.A., The Bank of New York Mellon, Citibank N.A., Deutsche Bank AG, Goldman Sachs, HSBC Bank USA, JPMorgan Chase, Morgan Stanley, MUFG, State Street and Trust Company, UBS AG, US Bank, and Wells Fargo.

² This is in addition to similar global migrations occurring at other payments financial market infrastructures (CHAPS, TARGET2, EURO1, etc.) and messaging systems (SWIFT)

and collectively, pose minimal risk to the stability of USD payments during this key period of payments modernization.

The PRC supports *same-day migration* for both Fedwire and CHIPS. One benefit of same day migration is that it allows participants of both Fedwire and CHIPS to avoid directing additional time and resources to develop the capability to map between ISO 20022-formatted messages of one system and legacy-formatted messages of the other system. Conversely, planning for a same day implementation may introduce significant risk to Fedwire or CHIPS participants (especially for participants of both systems) – and the stability of USD payments more broadly – in the event critical issues emerge during the ISO implementation and both payment systems or one of the systems (given implementation dependencies) may be rendered unavailable.³

To mitigate implementation risk of same-day migration, the PRC strongly encourages *continuous dialogue and coordination* between the Federal Reserve, The Clearing House Payments Company L.L.C. (“TCH”), participants of both Fedwire and CHIPS, and key third-party service providers (e.g., cloud computing companies, platform software vendors) throughout the payment systems’ respective ISO 20022 migration programs to fully evaluate the best approach for the industry. Further, as participants need time to prepare for whichever implementation approach the Federal Reserve ultimately decides on, we urge the Federal Reserve to begin these conversations as soon as practicable, perhaps at the close of the FR Notice comment period, with the goal of having a decision discussed and finalized around summer 2022 in order to allow enough time for the industry to prepare.

Notwithstanding the need for regular industry coordination and communication, the PRC also believes the Federal Reserve should consider technical mitigants to potential risks to Fedwire’s ISO 20022 migration in the event that a significant number of Fedwire participants, or participants that constitute significant Fedwire activity, encounter issues with their own internal ISO 20022 implementation programs. The FR Notice states that in such situations, impacted participants should use FedPayments® Manager as their backup to create ISO 20022-formatted Fedwire messages after the Fedwire migration. The PRC believes this service is not scalable for certain Fedwire participants, such as PRC member banks, with large volumes that constitute a majority of Fedwire traffic. As such, the Federal Reserve may wish to offer additional technical mitigants. For example, we may suggest that the Federal Reserve include in Fedwire’s ISO 20022 implementation program contingency tools such as a *temporary*

³ In such a situation, appropriately staggering implementations may reduce the risk of potential disruptions to both systems at the same time and decrease the dependency between the two payment systems.

service that translates messages between ISO 20022 and legacy Fedwire messages catered to different client segments (Fedwire-only participants, Fedwire and CHIPS participants, participants leveraging third-party service providers). Such a service would provide a safety net for the thousands of Fedwire participants and enable the Fedwire implementation to proceed as scheduled even if a material number of participants (or participants with significant Fedwire activity) encounter problems with their implementations. This may also be a useful tool in the event that sequential migration (relative to CHIPS) ends up ultimately being chosen as the preferred approach, if deemed risk minimizing through industry coordination and reflections on lessons learned from other ISO 20022 programs.

In terms of when ISO 20022 migration should occur, the PRC believes that Fedwire and CHIPS migration to ISO 20022 should not be delayed much beyond November 2023 given momentum of ISO 20022 adoption across key market infrastructures globally. That said, the PRC also acknowledges that any delays in concurrent ISO 20022 migration programs of other market infrastructures may impact Fedwire's and CHIPS' own migration. On that note, the PRC recommends that the industry collectively ensures that any lessons learned from similar ISO 20022 migrations occurring prior to that of Fedwire and CHIPS iteratively be incorporated into respective project plans ahead of the planned November 2023 migration. Finally, to the extent that public sector and private sector resources must be prioritized among different payment modernization initiatives, ISO 20022 implementation should take priority over other initiatives.

If you have any questions, or wish to discuss this letter, please contact the PRC Secretariat (PaymentsRisk.Committee@ny.frb.org).

Yours sincerely,

The PRC Member Banks