



December 17, 2021

*Via Electronic Submission*

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

Re: **New Message Format for the Fedwire® Funds Service (Docket No. OP-1613)**

Dear Ms. Misback:

The Clearing House Payments Company L.L.C. (“TCH”)<sup>1</sup> appreciates the opportunity to provide comments to the Board of Governors of the Federal Reserve System (“Board”) in response to its notice of adoption of ISO 20022 message format for the Fedwire® Funds Service (“Fedwire”) and request for comment on its revised migration plan.<sup>2</sup> As the operator of CHIPS and as a user of Fedwire, TCH supports the Board’s proposal that the Reserve Banks adopt the ISO 20022 message format on a single day rather than the three separate phases previously proposed in its 2018 notice.<sup>3</sup> TCH also plans to adopt ISO 20022 for its high-value funds transfer system, CHIPS, in a single day approach based on feedback from CHIPS participants and the industry. We believe alignment in approach and timing for adoption of ISO 20022 for the U.S. wire infrastructures – CHIPS and Fedwire – will yield the best results for the nation’s high-value payment systems.

As discussed in more detail below, TCH

- agrees with the single day approach and the Board’s intention to align the timing of Fedwire implementation with that of CHIPS to the extent possible;

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<sup>1</sup> Since its founding in 1853, The Clearing House has delivered safe and reliable payments systems, facilitated bank-led payments innovation, and provided thought leadership on strategic payments issues. Today, The Clearing House is the only private-sector ACH and wire operator in the United States, clearing and settling nearly \$2 trillion in U.S. dollar payments each day, representing half of all commercial ACH and wire volume. It continues to leverage its unique capabilities to support bank-led innovation, including launching the RTP® System, a real-time payment system that modernizes core payments capabilities for all U.S. financial institutions. As the country’s oldest banking trade association, The Clearing House also provides informed advocacy and thought leadership on critical payments-related issues facing financial institutions today.

<sup>2</sup> 86 Fed. Reg. 55600 (Oct. 6, 2021).

<sup>3</sup> 83 Fed. Reg. 31391 (Jul. 5, 2018).

- requests that the Board and Federal Reserve Wholesale Product Office (“WPO”) facilitate discussions with the industry following close of the comment period regarding the benefits and potential risks of Fedwire and CHIPS implementing ISO 20022 on the same day;
- supports the proposed backout and fix-in-place strategies;
- suggests that a Fedwire translation service, if it can be implemented by November 2023, and transparency regarding the level of participant readiness necessary for Fedwire to go live with ISO 20022 would be beneficial; and
- urges quicker action on the Board’s initiative to potentially expand the operating hours of Fedwire and National Settlement Service (“NSS”) up to 24x7x365.

## Discussion

### **1. TCH supports the Board’s proposal to adopt the ISO 20022 message format in a single day rather than in three separate phases.**

TCH supports the Board’s revised migration plan for adopting the ISO 20022 message format from a phased approach to a single day approach. While a phased approach allows for a more gradual introduction of a change, it takes longer to accomplish and brings additional complexity in the form of maintaining technical co-existence measures during the migration as well as technical complexities in adding new capabilities to a system while a migration is ongoing. Comparatively, a single day approach should reduce complexity and the operational risk related to the complexity.

Adoption of the ISO 20022 message format in a single day is not without its own risks though. Because it requires all participants to be ready on the same day, this approach introduces more operational risk than a phased implementation. As contemplated by the Board, these risks can be reduced through a strong readiness testing regime, mandatory testing, and by practicing implementation through dry-runs and exercises. Taking into consideration the risks of both approaches, TCH believes the single day approach overall allows for more efficiency and harmonization for participants of both Fedwire and CHIPS during the migration to ISO 20022.

### **2. TCH supports the Board’s intention to align the timing of Fedwire implementation with that of CHIPS and believes such alignment is essential to the U.S. market.**

Although TCH and the Federal Reserve use different proprietary message formats for CHIPS and Fedwire today, the formats are similar to one another, mapping between the formats is well established, and, thus, banks can readily convert between the formats when needed. In contrast, ISO 20022 is more dissimilar to current proprietary CHIPS and Fedwire message formats than the proprietary formats are to each other. Indeed, ISO 20022, as an XML based standard, requires different software to validate and process messages than the software used for the proprietary formats for CHIPS and Fedwire. Hence, for any period in which only one of the systems has implemented ISO 20022, participants that use both systems will need to maintain two different software systems to read and process USD payment orders.

Further, participants would be unable to receive a message from one system and send a corresponding message through the other system, unless they develop new mappings to convert between ISO-formatted CHIPS messages and legacy-formatted Fedwire messages (or vice versa if Fedwire implemented ISO 20022 before CHIPS). For this reason, the alignment of Fedwire and CHIPS implementations are essential for the U.S. market.

a. Importance of Implementation in November 2023

TCH believes that migration to ISO 20022 should not be delayed beyond November 2023 given the international momentum of ISO adoption. SWIFT plans to enable ISO 20022 messages beginning in November 2022 – a full year in advance of the scheduled migration for the U.S. high-value payment systems. Eurosystem’s TARGET2 and EBA Clearing’s EURO1/STEP1 expect to complete their migration to ISO 20022 at the time of SWIFT’s launch in November 2022. Additionally, the Bank of England expects to complete its migration to fully enhanced ISO 20022 messages for the CHAPS systems in February 2023. Already CHIPS and Fedwire participants will need to contend with the challenge of converting between the ISO format and legacy formats when receiving and sending payment messages from and to different payment systems that may have already migrated. Hence, TCH emphasizes the importance of not delaying migration to ISO 20022 for Fedwire any further beyond November 2023. 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.

We note that if the Fedwire implementation was delayed beyond November 2023 there is a strong likelihood that CHIPS participants would want TCH to delay ISO 20022 implementation for CHIPS until Fedwire was ready to implement. This is due to the technical complexities noted above that would result from CHIPS participants needing to support both Fedwire legacy format and CHIPS ISO 20022 format. Such a delay would have global implications given that more than 90% of CHIPS payments by volume are the USD leg of a funds transfer that begins and/or ends in another country. Hence, TCH strongly supports the Board’s intention to align the timing of ISO 20022 implementation for Fedwire with TCH’s implementation for CHIPS in November 2023.

b. Same Day Migration

While TCH strongly supports aligning the implementation for Fedwire and CHIPS in November 2023, we are uncertain as to whether a same day migration for both systems on the same day would, on balance, increase or decrease risk for the market. Hence, we believe there is a need for discussion between both operators, their common participants and third party service providers – to fully evaluate the best approach for the industry.

One benefit of a same day migration is that it would allow participants of both systems to avoid directing additional time and resources to develop the capability to map between ISO-formatted messages of one system and legacy-formatted messages of the other system (depending on which

payment system migrates to ISO 20022 first). While global banks are developing capabilities to simultaneously support and convert between legacy formats and ISO formats in other markets, to require such technical measures for the U.S. market creates additional complexity to ISO 20022 implementation projects that are already quite complex. Further, if banks were required to convert between ISO 20022 and legacy formats for their USD clearing there would be potential operational risk related to the conversion and processing of payments in the different formats. Hence, there is some concern that the need to convert between formats for CHIPS and Fedwire will bring additional risk to global banks.

Conversely, planning for a common same day implementation may introduce significant risk to a CHIPS or Fedwire participant – and the U.S. market as a whole – in the event critical issues emerge during the ISO implementation and both CHIPS and Fedwire are unavailable. Further, an expectation by the market that Fedwire and CHIPS would implement on the same day would increase the dependency of the two operators on each other to be able to implement in November 2023 and require a higher degree of coordination between TCH and the WPO. Thus, slightly staggering implementations would reduce the risk of potential disruptions to both systems at the same time and decrease the dependency between the two operators.

Given the important implications of the timing of the Fedwire and CHIPS implementations and the difficulty in weighing the relative risks of a same day versus a staggered approach, TCH recommends the Board and WPO engage with TCH, common participants, and their third party service providers through additional discussions in order to fully evaluate all considerations and ascertain the best approach for the industry. Further, as participants will need time to prepare for a same day implementation or a slightly staggered implementation, we urge the Board to begin these conversations at the close of the comment period with the goal of having a decision finalized by April in order to allow enough time for the industry to prepare.

### **3. TCH believes the Board’s proposed testing plan for ISO 20022 implementation is appropriate.**

The Board has proposed that the Reserve Banks should require rigorous testing in three different environments before the implementation date of ISO 20022. Authorized Fedwire participants and software vendors would use the Readiness Portal feature with MyStandards (SWIFT’s online collaborative platform for creating financial messaging standards for the ISO 20022 migration) to ensure their ISO 20022 messages are properly formatted. The Readiness Portal provides an opportunity to perform advance testing before performing functionality testing in the Reserve Banks’ depository institution testing (“DIT”) environment. Beginning 9-12 months ahead of the implementation date, the Reserve Banks would introduce a second DIT environment to allow Fedwire participants to test their ability to send and receive ISO 20022 messages with each other. Finally, the Reserve Banks would provide production environment testing on select Saturdays 2-3 months prior to the implementation date.

TCH supports this level of rigorous testing, and believe a minimum of 9 months of testing is needed to fully prepare for the migration. TCH plans to implement a similar approach for CHIPS

participants to test before our implementation date, and will begin participant testing in November 2022 – 12 months before planned implementation. TCH will also utilize its own page in MyStandards to store and share documentation related to ISO 20022 with CHIPS participants and vendors. CHIPS participants will use the Readiness Portal feature in MyStandards to conduct testing prior to testing with the CHIPS mainframe. Testing will be available five days a week at a minimum for customers to perform ISO testing, and finally CHIPS participants will be required to demonstrate their readiness for ISO 20022.

TCH also recommends aligning testing for CHIPS and Fedwire. Coordinated testing between CHIPS and Fedwire would be helpful for participants to test certain use cases, such as switching back and forth between systems for those participants that use both.

TCH requests that the Board provide additional details regarding (i) the validation capabilities of the readiness portal; (ii) whether the second DIT environment requires Fedwire participants to operate two parallel test environments internally; (iii) who will coordinate testing between Fedwire participants; (iv) whether there will be specific periods to test functionality between Fedwire participants; and (v) what the specific test scripts will entail.

**4. TCH supports the proposed backout and fix-in-place strategies and suggests that further measures to mitigate risk and provide transparency to the industry would be beneficial.**

a. Backout Strategy

The Board proposes to maintain the ability to “back out” of ISO 20022 changes and return to its legacy format temporarily in the event the Reserve Banks encounter significant problems activating ISO 20022 on the Saturday before the implementation date. The backout strategy would only be employed in the event the Reserve Banks encounter significant issues, and not in the event Fedwire participants experience internal issues. Fedwire participants would maintain the option to use the FedPayments<sup>®</sup> Manager as a contingency alternative if they encounter internal issues. TCH supports this backout strategy in the days before the migration, and plans on a similar approach in the event TCH experiences significant issues prior to implementation for CHIPS. We also emphasize the need to be closely aligned and coordinated in the event the Board decides on a same day implementation between CHIPS and Fedwire. Under such an approach, one system’s need to implement a backout strategy would necessitate the other system also temporarily backing out of its implementation.

b. Fix-in-Place Strategy

As described in the Board’s notice, the Reserve Banks would not return to its legacy format if they encounter significant issues on or after the implementation date. Instead, the Reserve Banks would implement a “fix-in-place” strategy and provide software updates to address the issue. TCH strongly supports this fix-in-place strategy, and plans a similar approach for its own migration to ISO 20022. Attempts to return to a legacy format after the implementation date would be logistically challenging,

and efforts would be better aimed towards resolving any issues. Further, under a fix-in-place strategy, participants would not need to maintain the ability to revert to a legacy format and can divert resources towards solving potential issues.

- c. A Fedwire translation service, if it can be implemented by November 2023, and transparency regarding the level of participant readiness necessary for Fedwire to go live with ISO 20022 would be beneficial.

The Board states that Fedwire participants that encounter issues with their internal ISO 20022 implementations would use FedPayments® Manager as their backup to create ISO 20022-formatted Fedwire messages after the Fedwire migration. TCH agrees this approach is practical for Fedwire participants that send a small number of Fedwire payments each day. However, we are concerned this service is not scalable for Fedwire participants with medium or large volumes. We are also concerned that notwithstanding the Board's intention that it would only use its backout strategy for problems that the Reserve Banks encounter with their implementation, if in fact a material number of Fedwire's thousands of smaller participants encountered problems prior to the implementation date, the Board would delay the Fedwire implementation. As previously discussed, a Fedwire implementation delay will have implications for the larger U.S. market.

To mitigate the risk that Fedwire's implementation will be delayed beyond November 2023 due to a material number of Fedwire participants that have problems with their implementation, we suggest that the Fedwire implementation include a service that translates legacy Fedwire messages to ISO 20022 Fedwire messages and could support normal Fedwire volumes for a participants with medium to large volumes. However, if the inclusion of such a service would delay Fedwire implementation beyond November 2023, we believe it is more important that the WPO maintain its existing November 2023 date than provide the service.

Additionally, we think the Fedwire community will need a means of understanding how the Board will determine that enough Fedwire participants are ready for Fedwire implementation to allow the implementation to take place. For example, will a certain percentage of total participants need to have successfully completed testing? Or will enough participants that together account for a certain percentage of Fedwire volume or value need to have successfully completed testing? Whatever measure the Board will use should be disclosed to the Fedwire community and the Board should provide updates as to how the participant community is tracking overall against the measure so that participants can have visibility into the likelihood of the WPO meeting its target date for Fedwire implementation.

- 5. TCH strongly supports and urges faster action for a *Federal Register* notice allowing the public to comment on the expansion of Fedwire and National Settlement Service operating hours up to 24x7x365.**

The Board notes that the proposed adoption of ISO 20022 should be viewed as part of a broader set of initiatives to expand and enhance Federal Reserve payment services, including the potential expansion of operating hours for Fedwire and NSS. TCH appreciates the Board's commitment to setting a strong foundation for a safe, efficient, and resilient payment system and reminds the Board of the dependence of private sector systems on Fedwire and NSS. We believe the private sector will be hindered in its ability to address evolving liquidity and resiliency needs until Fedwire and NSS operate beyond their existing hours. As the Board itself has noted, expanded hours deliver flexibility for effecting all types of payments transactions, whether domestic or cross-border, and could "provide additional benefits to financial markets broadly, beyond support for faster payments."<sup>4</sup>

Given the private sector's ongoing requests for expanded Fedwire and NSS hours for several years now and the Board's statements that it has been studying this issue since at least 2019<sup>5</sup>, the Board's indication that it may wait another year before moving forward with a proposal is concerning to us. We strongly encourage the Board to accelerate its plans to seek public comment and "fully evaluate the relevant operational, risk, and policy considerations with expanded hours for the Fedwire Funds Service."<sup>6</sup> In this regard we note that 24x7 availability of Fedwire, a service that is subject to the heightened standards applicable to systemically important financial market utilities, has become critical to the service's ability to be "efficient and effective in meeting the requirements of its participants and the market it serves."<sup>7</sup> Further, the recent consultative report by the Committee on Payment Market Infrastructures regarding the extension and alignment of real-time gross settlement system operating hours as a means to enhance cross-border payments amplifies the importance of pursuing 24x7 operations in a near term rather than long term horizon.<sup>8</sup>

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Thank you for your consideration of these comments. If you have any questions or wish to discuss this letter, please do not hesitate to contact me.

Yours very truly,

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Richard Dzina  
Senior Vice President  
212.613.9872  
[richard.dzina@theclearinghouse.org](mailto:richard.dzina@theclearinghouse.org)

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<sup>4</sup> 84 Fed. Reg. 39297, 39301 (Aug. 9, 2019)

<sup>5</sup> *See id.*

<sup>6</sup> 85 Fed. Reg. 48522, 48532 n. 61 (Aug. 11, 2020).

<sup>7</sup> Principles for Financial Market Infrastructures, Principle 21.

<sup>8</sup> "Extending and aligning payment system operating hours for cross-border payments," Committee on Payments and Market Infrastructures (November 2021).