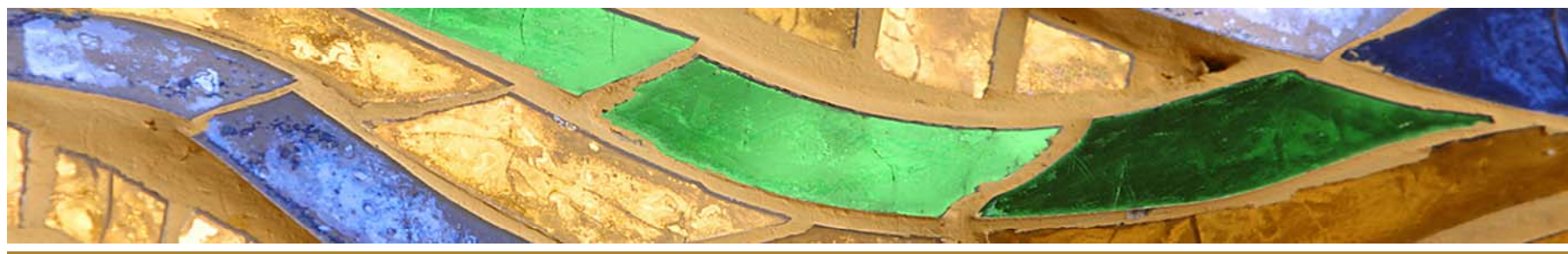




BNY MELLON
TREASURY SERVICES



International Payment & Trade Services

February 25, 2011

BAFT – IFSA

Extended Remittances –

The Theory, Practice and Reality

Presented by Philip Zeidner

Agenda

- I. Background
- II. Corporate Client Perspective
- III. Process
- IV. Bank's Perspective
- V. BAFT- IFSA's role

Section I.

Background

Background

- Corporate clients need to receive the related remittance data with their payments and they would like to receive it *electronically*
- They want to reduce/eliminate check payments
- Fed developed their “*Fedwire Application Interface Manual (FAIM)*” and a new business function code called the Customer Transfer Plus (“CTP”)
- CHIPS developed their “*New Business Remittance Information Message Format*”
- Both payment system formats will include a new field that can carry up to 9,000 bytes of remittance data

Background

- Payments Market Practice Group (PMPG) guidelines issued on December 17, 2010
- Fed issued their Extended Remittance Information Best Practices guidelines and last updated the document on January 7, 2011
- FINCEN guidelines were issued on November 9, 2010
 - Guidelines provided clarification on the elements within a transaction that will need to be passed along with the transaction
 - “ERI” is not required to be passed with the transaction; however, banks will need to provide the information when requested

Section II.

Corporate Client Perspective

Expectations

- Since they already receive remittance data with their ACH and EDI type transaction, corporate clients believed this was an easy change and said they would be willing to pay for the service
- Banks did not have a method to move the remittance data along with their high value transactions unless they issued the payment via check
- Overseas clients could not receive the remittance data through their currently available method of advising, which is primarily SWIFT-based

Section III.

Process

Process

- Originator and Beneficiary should discuss the format they plan to use to issue the Remittance data
- Both parties should engage their banks to make sure these formats will be available
- When using Fedwire and CHIPS, the use of structured fields is recommended, when applicable for data
- When CHIPS and Fedwire members exchange ERI with each other, they are expected to use X12 820 format—the standard format they have agreed upon.
- Editing or correcting the formatting of the remittance field is not recommended—a format or trigger to the end point AP/AR system could be lost.

Process

- Providing ERI will be up to the Bene Bank and they will need to inform their clients how this process will work
 - MT 103 where field 70 contains a link or location to pull down the data
 - MT 103 Remit (which requires joining a MUG)
 - Agreed upon EDI format
 - Proprietary formatted message

Involvement

- Multiple formats will be available to Originators to initiate their Remittance information
- Receivers, on the other hand, may already be committed to a certain format into which their bank will translate incoming data

No matter which format was used when you received the transaction

Translation

It may not be the same one you will need to advise your client

Receive format:

EDX12, ANSI,
820, GXML,
IXML, NARR,
SWIF, UEDI

Translation

Send format:

EDX12, ANSI,
820, GXML,
IXML, NARR,
SWIF, UEDI,
Proprietary

Effort

- Generally, the advising process occurs after funds transfer processing is completed, which will require your reporting engine to perform the translation
- Accept, Store and Transmit the remittance data
- Testing with your technology partners, as well as your advising partners, is critical for this implementation as you may cross into new territory not usually under Funds Transfer control

Section IV.

Bank's Perspective

Bank's Perspective

- Testing is critical!
- To Push or Pull – that is the question
- There may be too many formats to translate – this must be managed properly to be effective
- Every bank must be prepared to accept Remittance details and, at a minimum, have a plan in place for distribution of the data to their clients and other intermediaries

Bank's Perspective

- Volume is not identifiable, making it difficult to size the effort
 - Build it and they will come may not be true here!
- When it comes to Corporate Client advising, there are numerous formats through which you may have to pass the data to the client
- Costly process that may yield a profit
 - Although Corporate clients say they would pay for the service, without sufficient volumes, the fee may be too high for customers to bear
- There has been no buy-in from International Banks as there is no easy advising structure

Section V.

BAFT-IFSA's Role

BAFT - IFSA

- BAFT - IFSA, through its various Payments and Regulatory committees, has been working since 2009 to ensure this effort receives the appropriate attention
- Sub-committee meetings, as well as the Federal Reserve Bank's hosted meetings, have been well attended
- These BAFT - IFSA committees provide guidance on the changes being proposed, as well as feedback about their banks' testing results
- The committees will continue to work with the Federal Reserve Bank and The Clearing House through the implementation of ERI to ensure a smooth process



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The information included herein should be used for informational purposes only. To determine impacts specific to your organization, please consult with your own legal counsel or other subject matter expert.

Extended Remittance Information: A Compliance Perspective

BAFT-IFSA Webinar "Are You Ready?"

February 2011

**Scott Kinney, CAMS
International Compliance
Wells Fargo**



Extended Remittance Information: A Compliance Perspective

- Summary
 - Structured Remittance Information
 - Unstructured Remittance Information
- Tactical Compliance Concerns
 - Sanctions and OFAC Scanning
 - Impacts on Downstream Correspondents
 - Storage, Retrieval, and Display of Information
- Strategic Compliance Concerns
 - Policy
 - Risk Questions that cross from trade to payments
 - Monitoring/Surveillance



Extended Remittance Information: Structured vs. Unstructured

- Structured Remittance Information
 - One Time Data
 - Remittance Originator
 - Remittance Beneficiary
 - Per Invoice
 - Primary Document (Invoice, Bill of Lading)
 - Actual Amount
 - Gross Amount
 - Discount
 - Adjustment
 - Adjustment Reason
 - Adjustment Amount
 - Free Text (420 characters)
- Unstructured Remittance Information – 9000 characters.



Extended Remittance Information: Sanctions and OFAC scanning

- OFAC software packages use a number of string matching algorithms, a common component is the so-called trigram search method.

A Saturday afternoon in November was approaching the time of twilight and the vast unenclosed tract of land known as Egdon Heath embrowned itself moment by moment. Overhead the hollow stretch of whitish cloud shutting out the sky was a tent which had the whole heath as its floor. The heaven being spread with this pallid screen and the earth with the darkest vegetation, their meeting-line at the horizon was clearly marked. In such contrast the heath wore the appearance of an installment of night which had taken up its place before its astronomical hour was come: darkness had to a great extent arrived hereon, while day stood distinct in the sky. Looking upwards, a furze-cutter would have been inclined to continue work; looking down, he would have decided to finish his cigarette and go home. The distant rims of the world and of the firmament seemed to be a division in time no less than a division in matter. The face of the heath by its mere complexion added half an hour to the evening; it would in like manner retard the dawn, sadden noon, anticipate the frowning of storms scarcely generated, and intensify the opacity of a moonless midnight to a cause of shaking and dread. In fact, precisely at this transitional point of its nightly roll into darkness the great and particular glory of the Egdon waste began, and nobody could be said to understand the heath who had not been there at such a time. It could best be felt when it could not be clearly seen, its complete effect and explanation lying in this and the succeeding hours before the next dawn: then, and only then did it tell its true tale.

Extended Remittance Information: OFAC and Sanction Scanning



A more reasonable example of unstructured remittance information:

FABRIC: 100 PERCENT POLYESTER JERSEY -200GSM
EACH

STYLE NO.	DESCRIPTION	PO	QTY	COST	SHIP DATE
EB58BD76	MILITAR STAR LAYERED SLEEVE PJ TOP	2914	420	2.00	07-01-07
EB58BE88	SPORTS SHIELD L/SLV PJ TOP	2914	576	2.00	07-01-07
EB58BC76	MILITARY STAR LAYERED SLEEVE PJ TOP	2914	588	2.00	07-01-07
EB58BB88	SPORTS SHIELD LONG SLV PJ TOP	2914	564	2.00	07-01-07
EB58BD76	MILITAR STAR LAYERED SLEEVE PJ TOP	2915	108	2.00	07-01-07
EB58BE88	SPORTS SHIELD L/SLV PJ TOP	2915	162	2.00	07-01-07
EB58BC76	MILITARY STAR LAYERED SLEEVE PJ TOP	2915	162	2.00	07-01-07
EB58BB88	SPORTS SHIELD LONG SLV PJ TOP	2915	162	2.00	07-01-07
EB58BD76	MILITAR STAR LAYERED SLEEVE PJ TOP	2616	72	2.00	07-01-07
EB58BE88	SPORTS SHIELD L/SLV PJ TOP	2916	144	2.00	07-01-07
EB58BC76	MILITARY STAR LAYERED SLEEVE PJ TOP	2916	144	2.00	07-01-07
EB58BB88	SPORTS SHIELD LONG SLV PJ TOP	2916	138	2.00	07-01-07
EB58BD76	MILITAR STAR LAYERED SLEEVE PJ TOP	2917	84	2.00	07-01-07

EB58BE88	SPORTS SHIELD L/SLV PJ TOP	2917	432	2.00	07-01-07
EB58BC76	MILITARY STAR LAYERED SLEEVE PJ TOP	2917	432	2.00	07-01-07
EB58BB88	SPORTS SHIELD LONG SLV PJ TOP	2917	390	2.00	07-01-07
EB58BD76	MILITARY STAR LAYERED SLEEVE PJ TOP	2918	114	2.00	07-01-07
EB58BE88	SPORTS SHIELD L/SLV PJ TOP	2918	432	2.00	07-01-07
EB58BC76	MILITARY STAR LAYERED SLEEVE PJ TOP	2918	432	2.00	07-01-07
EB58BB88	SPORTS SHIELD LONG SLV PJ TOP	2918	396	2.00	07-01-07
RB48AA76	LOVE HEART PJ TOP	2880	546	2.00	06-22-07
RB48AB76	PRETTY PRINCESS PJ TOP	2880	918	2.00	06-22-07
RB48AC76	FOREVER TATTOO PJ TOP	2880	768	2.00	06-22-07
RB48AD76	FOIL HEART PJ TOP	2880	546	2.00	06-22-07
RB48AA76	LOVE HEART PJ TOP	2881	174	2.00	06-22-07
RB48AB76	PRETTY PRINCESS PJ TOP	2881	300	2.00	06-22-07
RB48AC76	FOREVER TATTOO PJ TOP	2881	240	2.00	06-22-07
RB48AD76	FOIL HEART PJ TOP	2881	174	2.00	06-22-07

Extended Remittance Information: OFAC and Sanctions Scanning



Or... COVERING 100 PERCENT OF INVOICE VALUE OF GOODS AND/OR SERVICES
DESCRIBED AS APPAREL AND/OR ACCESSORIES AND/OR FOOTWEAR AND/OR
WATCHES AND/OR EYEWEAR AS PER P.O.
PO NO LINE QTY PRICE TOTAL LSHIPDATE COLR

SK233C 711 16 130.03 2080.48 2007-07-15 WBP
SK242C 712 12 66.01 792.12 2007-07-15 WCM
SK243C 713 25 66.01 1650.25 2007-07-15 GRN
SK244C 714 9 70.12 631.08 2007-07-15 KCO
SK930R 231 19 207.62 3944.78 2007-07-25 BLK
SNK930 1003 31 207.62 6436.22 2007-07-25 BLK
SNK931 1004 79 63.99 5055.21 2007-07-25 PLD
SNK932 1005 80 43.66 3492.79 2007-07-25 GRY
SNK932 1006 75 43.66 3274.49 2007-07-25 OLV
SNK950 1014 180 108.36 19504.80 2007-07-30 GRY
SNK951 1015 172 39.90 6862.80 2007-07-25 AAP
SNK951 1016 220 39.90 8778.00 2007-07-25 BLK
SNK952 1017 12 21.09 253.07 2007-07-20 BLK
SNK952 1018 89 21.09 1877.01 2007-07-20 BLY
SNK952 1019 134 21.09 2826.06 2007-07-20 RAS
SNK952 1020 95 21.09 2003.55 2007-07-20 ROS
SNK953 1021 28 40.61 1137.08 2007-07-25 BBE
SNK953 1022 410 40.61 16650.10 2007-07-25 CBB
SNK953 1023 143 40.61 5807.23 2007-07-25 CPD
SNK953 1024 220 40.61 8934.20 2007-07-25 FDG
SNK953 1025 32 40.61 1299.52 2007-07-25 OCB
SNK954 1026 561 43.46 24381.06 2007-07-20 BBE
SNK954 1027 701 43.46 30465.46 2007-07-20 CBB
SNK955 1028 425 43.46 18470.50 2007-07-20 FDG
SNK956 1029 770 43.46 33464.20 2007-07-20 CPD
SNK956 1030 535 43.46 23251.10 2007-07-20 WPD
SNK957 1031 147 43.46 6388.62 2007-07-20 OCB



Extended Remittance Information: Other Tactical Considerations

Impacts on non-Fed Correspondents, particularly cross-border: If you do not send all the remittance information, are you preventing the beneficiary bank from performing its own sanctions scanning? If you do not send all the remittance information are you systematically removing payment information?

- **Storage, Retrieval and Display of ERI:**

- For AML investigators
- For subpoena responses
- For OFAC 602 responses.



Extended Remittance Information: Strategic Compliance Concerns

- Policy Questions, large and small
 - If you have credit policies that control financing of certain goods, should they also control payments for those same goods?
 - Do you impose data format and content standards on customers using ERI?
- Monitoring and Surveillance: Do you bring Extended Remittance Information into your AML software? How? To what purpose?
- ERI blurs the boundaries between trade and payments. Questions that you might confront.....



Extended Remittance Information: Other Interesting Risk Questions

- Does the amount of the payment equal the amount of included invoices?
- Is the transaction consistent with the businesses involved? Consider:

Originator: Wal-Mart
Beneficiary: Samsung

50 Televisions, Model LN26R71BAX/XBG
90 Televisions, Model LN32R71BAX/XBG
10 Functional MRIs, Model MagFinder II



Extended Remittance Information: Other Interesting Risk Questions

- Do the additional instructions reference shipment through high risk jurisdictions?
- Do the additional instructions request transshipment to a 3rd party?
- Do the included invoices involve high risk goods? Consider:

Originator: Cabela's

Beneficiary: Argus Publications

890,000 12 GAUGE 00 BUCKSHOT

5,800,000 9mm BALL

9,600,000 5.56x45mm M200

10,000 40mm HEDP

4,500 20mm VULCAN HEIT SD M246 WITH M14A2 LINK

Extended Remittance Information: A Compliance Perspective



Thank you!

- Questions, Comments, Additional Concerns?
- Consider participating in BAFT-IFSA's Payments Compliance Committee



BAFT-IFSA

ONE VOICE FOR THE INTERNATIONAL BANKING COMMUNITY

The Impacts of Extended Remittances

Barry Tooker - SVP
Dovetail (retired)
February 25, 2011



The Impacts of Extended Remittances

- Overall
- Workflows
- Considerations
- Options



Overall

- You must modify your systems to comply FED Application Interface Application Manual (FAIM) version 3.0.2
- You must modify your systems to Comply with new CHIPS messaging standards
- Remittance format allows for several options
 - Structured
 - Unstructured
 - 7 different local instrument codes to specify native format contained in the unstructured space
 - Related
- Ability to receive from Fed / CHIPS will be mandatory
 - But origination and customer reporting is optional
 - Banks may choose to support some channels / formats, but not others
- Remember the two formats are slightly different with different character sets



Outgoing

- Host Systems will have to be modified to create and generate the additional field information
- Your payment system will have to be able to receive and map the new data fields (field tags and message content)
- Your payment system will have to be modified to allow for the input of the required codes and edits.
- Your OFAC filters and compliance systems will have to be modified to check and view the new fields. There could be performance issues and higher false positive rates
- Your message/payment systems will have to be modified to create and map the required fields in the outbound message and FED and CHIPS payments
- Your history and investigation system will have to be modified to accept the new information, query on it and allow it to be viewed.
- You will have to regression test your entire system including all downstream intraday and End of Day feeds.



Incoming

- Your payment system will have to be able to receive and map the new field tags and data fields from FED and CHIPS
- Your payment system will have to be modified to allow for the viewing of the new fields in any items requiring repair
- Your OFAC filters and compliance systems will have to be modified to check and view the new fields. There could be performance issues and higher false positive rates
- Your message/payment system will have to be modified to create and map the required fields from the incoming messages
- You will have to decide how you will store the new information
- You will have to decide how you will advise your customer of this information



Incoming

- You will have the ability to retain, map and deliver information in multiple formats
- Downstream host systems will have to be modified to allow for the reception of the additional field information
- Your history and investigations will have to be modified to accept the new information, query on it and allow it to be viewed.
- You will have to regression test your entire system including all downstream intraday and End of Day feeds



Considerations

- Final detailed Extended Remittance formats, mapping rules and edits from FED and CHIPS are available now
- There are new FINCEN Guidelines and travel rule considerations.
- How will you adhere to industry best practices guidelines - FED and PMPG documents are available
- Not a lot of time between now and November 21- Testing on FED in May
- Need to assess impacts of these changes on all payments and host systems as well as new stakeholders systems
- Need to understand the operational and compliance impacts as a sender, intermediary or receiver
- Need to work with your internal IT, Audit, compliance, external vendors and suppliers to understand the impacts and implications of these changes



Considerations

- Need to ascertain if these changes are covered under vendor maintenance
- Need to understand overall budget impacts
- There will be a need for correspondent bank/customer education
- Need to coordinate all internal changes to ensure operational readiness
- You will have to plan for the regression test of your entire system and the downstream intraday and End of Day feeds



Options

- Change your systems to adopt new messaging standards for both incoming and outgoing
- Have a procedure for handling an incoming items when you receive them
- In either case at a minimum
 - Update your FED Interface software
 - Update your compliance systems
 - Have a place to store, retain and access the extended remittance information