

High Wire:

Wire Transfer Best Practices



Presented by:

**Macha/PAR – Everything Payments -
Everywhere**

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Agenda

Wire Transfer Systems

Wire Transfer Participants and Flow

Wire Transfer Policy

Wire Transfer Agreements

Wire Transfer Handling

Wire Transfer Governance

Wire Transfer Risk Management

Wire Transfer

A real time gross settlement electronic funds transfer

Wire transfer systems were designed for credit/push transfers

Final and irrevocable payments

Wire Transfer Systems

Fedwire

- Refers to services owned and operated by the Federal Reserve Banks
- Process interbank funds transfers
- Participants must adhere to Regulation J, subpart B and Operating Circular 6



Clearing House Interbank Payments System (CHIPS)

- The largest private sector clearing system in the world for wire transfers
 - Both domestic and international
- Participants must adhere to the CHIPS Rules and Administrative Procedures



SWIFT

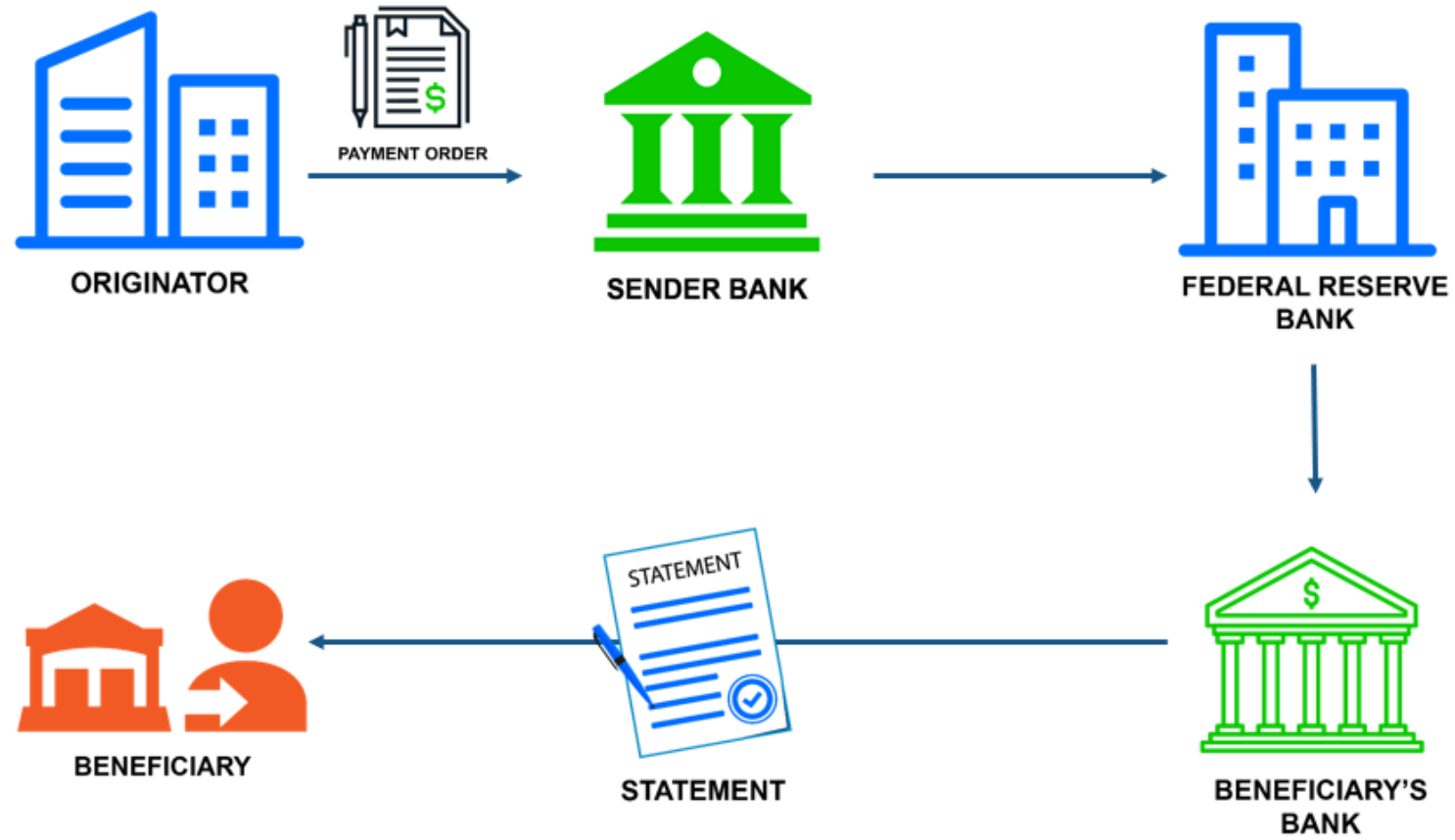
- Society for Worldwide Financial Telecommunications
- Bank-to-bank messaging network, or telecommunications network, and NOT a payment system
- SWIFT is a member-owned cooperative based in Belgium and made up of 8,100 participants in 208 countries and territories
- Allows member organizations to send a message from one member to another asking them to credit or debit a beneficiary's account
- Settlement for the transactions takes place using correspondent banks



Wire Transfer Participants

- **Originator/Sender:** Sender of the payment
- **Originating/Sender's Bank:** Sender's bank; initiates transfer
- **Federal Reserve Bank:** Entity that processes and settles Fedwire funds transfers and book-entry securities transfers at instruction of participants
- **Beneficiary Bank:** Identified in payment order to be credited pursuant to order
- **Beneficiary:** Person to be paid
- **Correspondent FI-A** financial institution acting on behalf of other financial institutions

Wire Transfer Flow



Wire Transfer Policy

- Types of wires
 - Domestic vs. International
 - Account holder vs non-account Holder
- Acceptable types of requests
 - In-person, email, phone, fax, online
- Verifying funds
 - Good funds?
 - Extension of credit
- Approval procedures
 - Exceptions to policy/procedures
 - Who can approve exceptions?
 - How will exceptions be documented?
- Security Procedures
 - Authentication of requests
 - Call backs, signature verification, PIN, password
 - Dual control
- Wire Software
- Account Holder Agreements
- OFAC
- Wire Limits
 - Value
 - Velocity

Wire Transfer Agreements

- Identify authorized individuals
- Identification of accounts
- Domestic vs International
- Issuance of payment orders
- Recurring payment orders
- Security procedures
 - Access/Authentication
 - Physical security
- Settlement
- Errors in payment orders
- Amendment to payment orders
- Cancellation of payment orders
- Rejection of payment orders
- Regulatory compliance
- Liabilities
- Fees

Incoming Wire Transfers

- Upon receipt of an incoming wire transfer, funds are credited in accordance with the instructions of the payment order and funds availability schedule after:
 - The passing of the OFAC scan
 - Verification of the name on the account
- Funds availability is governed by Regulation CC
 - No later than 9:00 a.m. local time on the business day following receipt of the wire transfer, with proper account information
- Name and account number should match account information, or the wire may be returned.
 - Name and Account Number Mismatches occur when wire transfers are received with incorrect or incomplete account information.
 - Posting wires with incorrect or incomplete information may open the institution to potential loss.

Wire Transfer Returns and Recalls

- An incoming wire is returned when it is rejected by the beneficiary financial institution and returned to the originating/sending financial institution due to incomplete or incorrect information.
- An outgoing wire is recalled by sending a non-value message through the wire system requesting that the wire be returned by the beneficiary financial institution.
 - Due to erroneous transactions (incomplete or incorrect information or duplication) or suspected fraudulent activity
 - Recalling wire transfers is a message system only and does not guarantee the wire will be returned



Wire Transfer Governance



Wire Transfer Governance

BSA

OFAC

Operating
Circular (OC) 6

Regulation CC

Regulation E,
subpart B

Regulation J,
subpart B

Uniform
Commercial
Code 4A

Bank Secrecy Act

- Bank Secrecy Act (31 CFR 103) “Travel Rule”
 - Requires all financial institutions to pass on certain information to the next financial institution creating an information trail about persons sending and receiving funds through funds transfer systems.
 - Information must be retained for 5 years.
 - Transmittals of funds equal to or greater than \$3,000 (or its foreign equivalent) are subject to this rule.
 - Required Information:
 - Name, account number and address of the originator
 - Identity of the originator’s financial institution
 - Amount
 - Execution date
 - Identity of the beneficiary’s financial institution
 - Name, address and account number of the beneficiary (if received)

Bank Secrecy Act

- Governs suspicious activity reporting requirements
- Governs wire transfer recordkeeping
 - Required for any wire transfer of \$3,000 or more
 - Must record and retain for five years
 - Including:
 - Transmitter's name and address
 - Dollar amount of transfer, date of payment along with instructions
 - Beneficiary bank identification
 - Beneficiary's name, address, and account number (if provided), any other beneficiary identifier.

Office of Foreign Assets Control

- Administers and enforces economic and trade sanctions based on U.S. foreign policy and national security goals
- Specially Designated Nationals and Blocked Persons (SDN) List
- Not a bank regulator, but may impose criminal and/or civil penalties for non-compliance
- OFAC requirements are separate and distinct from any other law, act or agency requirements
- Requires financial institutions to take appropriate steps to investigate, suspend, reject, block and report certain transactions.
- Wire transfers should be screened for OFAC:
 - Prior to being initiated
 - When received, prior to being posted to the beneficiary's account



Office of Foreign Assets Control

- OFAC has guidance available for specific industry groups
- Sanctions Compliance Guidance for Instant Payment Systems
- <https://ofac.treasury.gov/additional-ofac-resources/ofac-information-for-industry-groups>



Federal Reserve Operating Circular 6

Outlines responsibilities and liabilities of Fedwire Funds Service participants related to the processing of wire/funds transfers through the Federal Reserve Banks

<https://www.frbervices.org/resources/rules-regulations/operating-circulars.html>

Regulation CC

- Expedited Funds Availability Act (EFAA)
- Implemented through Reg CC
- Applies to making proceeds of deposits into bank accounts available to depositors
- Applies to wire transfers, checks and ACH
- Sets forth funds availability schedules



Funds Availability Policy

Regulation E, subpart B

- Subpart B implements the Remittance Transfer Rule under Dodd-Frank
- Addresses consumer-initiated international remittance transfers for personal, household or family purposes
- A “remittance transfer” is an electronic transfer of money from a consumer in the United States to a person or business in a foreign country
 - consumer-initiated international wire transfers and IATs
- Addresses:
 - Appropriate error resolution standards
 - Cancellation and refund policies
 - Consumers have 30 minutes to cancel the transfer and get their money back

Regulation E, subpart B

- Consumers must be provided a disclosure before they pay for the remittance transfer
- The disclosure must contain:
 - The exchange rate
 - Fees and taxes collected by the transfer provider
 - Fees charged by the provider's agents and intermediary institutions
 - The amount of money expected to be delivered abroad
 - A disclaimer that additional fees and foreign taxes may apply

Regulation E, subpart B

- Consumers must be provided with a receipt that includes:
 - Information in the first disclosure or a proof of payment
 - Date when the money will be received abroad
 - How to report issues or errors

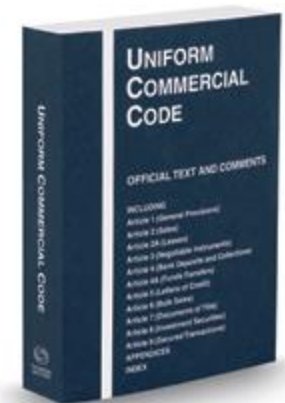


Regulation J, subpart B

- Provides the legal framework for depository institutions to collect checks and other items and to settle balances through the Federal Reserve System
- Establishes the procedures, duties, and responsibilities of:
 - The Federal Reserve Banks
 - Senders of payment orders to the Federal Reserve Banks
 - Financial institutions receiving payment orders from the Federal Reserve Banks
 - Beneficiaries of the payment orders

Uniform Commercial Code 4A

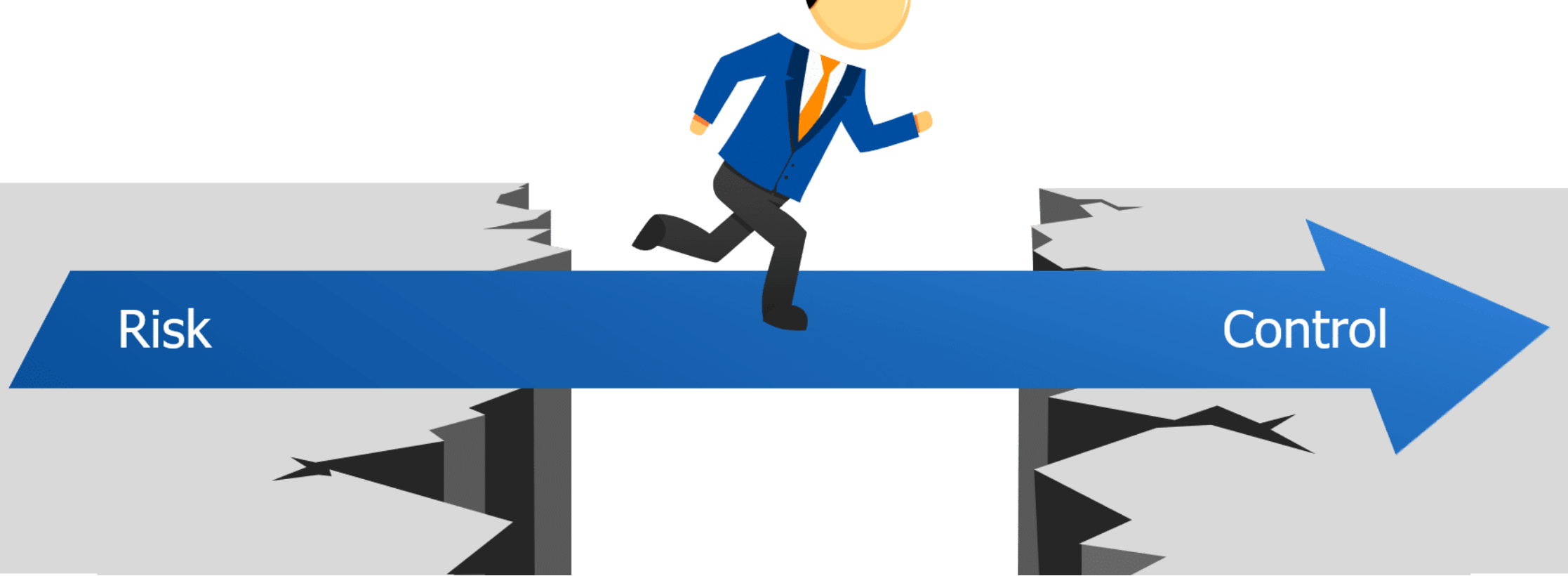
- State law governing corporate wholesale credit transfers, including wire transfers
- Detailed and comprehensive rules for determining rights and obligations of both financial institutions and end users
- Covers:
 - Security procedures
 - Account holder's duty to report unauthorized transfers
 - Responsibilities
 - Risk allocation
 - Limits on liability



Uniform Commercial Code 4A

- Addresses commercial reasonable security
- Commercial reasonableness of a security procedure is determined by:
 - Considering the wishes of the accountholder expressed to the FI
 - The circumstances of the customer known to the FI
 - Alternative security procedures offered to the accountholder
 - **Security procedures used by accountholders and FIs similarly situated**





Risk Management

Operational Risk Controls

- Policies and procedures
- Training program
- Separation of duties
- Audit
- Physical security
- Systems testing
- Business continuity planning
- Disaster Recovery

Fraud Risk Controls

- Wire transfer agreement
- Data security
- Audit trail
- Segregation of duties
- Staff and account holder training
- Dual control
- Change Management
- Physical access controls
- Privilege based user access controls
 - System access should be aligned with job function
- Multi-factor authentication
- Anomalous activity/Fraud detection
- Out of band verification
- KYC and KYCC

Credit Risk Controls

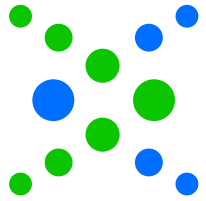
- Establish a Credit Policy
- Overdraft Policy
- Establish limits
 - Value
 - Velocity

Compliance Risk Controls

- Ensure the institution maintains compliance with all applicable U.S. laws, regulations and rules
- Implement strong internal policies and procedures
- Comprehensive and continuing staff training
- Control Self-Assessments
- Audit

Questions





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**High Wire: Wire Transfer Best
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