

not effectively relinquish control of these functions to the service provider. The Board believes that this condition has posed problems in cases where an individual with Fedwire-related responsibilities is an officer of multiple holding company affiliates that wished to establish Fedwire third-party access arrangements. The Board has deleted this specific provision from the revised policy, but continues to believe that it is important that the participant retain operational control of the establishment of criteria for approving Fedwire transfers handled by the service provider.

C. Transfers That Would Exceed the Established Transfer Limit

Revised Condition (#2)

In funds transfer line-of-credit arrangements, the service provider must have procedures in place and the operational ability to ensure that a funds transfer that would exceed the established transfer limit is not permitted without first obtaining the participant's approval. In book-entry securities transfer line-of-credit arrangements, the service provider must have procedures in place and the operational ability to provide the participant with timely notification of an incoming transfer that exceeds the applicable limit and must act upon the participant's instructions to accept or reverse the transfer accordingly.

Original Condition (#3)

The service provider must not permit or initiate transfers that would exceed individual credit limits without first obtaining the institution's permission.

The Board believes that it is important to retain the condition that customer credit limits are operationally binding on the service provider and that the service provider may not exceed those limits without the participant's permission. The language of this condition has been revised to distinguish between arrangements involving Fedwire funds transfers and book-entry securities transfers. In a funds transfer, the participant's reserve or clearing account held at the Reserve Bank is debited when the transfer is processed; therefore, transfer limits or controls must be in place before the transfer is made. In a book-entry securities transfer, however, the participant's reserve/clearing account is debited for each incoming transfer; therefore, transfer limits can only be monitored in an *ex post* fashion. As a result, the service provider must be able to notify the participant in a timely manner about incoming transfers that exceed the applicable limit so that the participant can instruct the service provider to accept or reverse the transfer accordingly.

D. Posting Transfers and Responsibility for Account Management

Revised Condition (#3)

Transfers will be posted to the participant's reserve or clearing account held at the Federal Reserve, and the participant will remain responsible for managing its Federal Reserve account, with respect to both its intraday and overnight positions. The participant must be able to monitor transfer activity conducted on its behalf.

Original Condition (#5)

All funds-transfer activity must be posted to the institution's account, and the institution will remain responsible for its account.

Original Condition (#9)

The institution must have the ability to monitor transfers being made on its behalf.

The revised condition (1) eliminates the language that limits the condition to funds-transfer activity; (2) clarifies that responsibility for management of the participant's reserve or clearing account, including control over daylight overdrafts, remains with the participant; and (3) incorporates the requirement that the participant be able to monitor its transfer activity.

E. Board of Directors' Approval

Revised Condition (#4)

The participant's board of directors must approve the role and responsibilities of a service provider(s) that is not affiliated with the participant through at least 80 percent common ownership. In line-of-credit arrangements, the participant's board of directors must approve the intraday overdraft limit for the activity to be processed by the service provider and the credit limits for any inter-affiliate funds transfers.⁵

Original Condition (#4)

The service provider must have the operational ability to ensure that the aggregate funds-transfer activity of the institution does not result in daylight overdrafts in excess of the institution's cap.

Original Condition (#6)

The institution's board of directors must approve the specifics of the arrangement, including (a) the operational transfer of its funds-transfer activity to the service provider, (b) the net debit cap for the activity to be processed by the service provider, and (c) the credit limits for any inter-affiliate funds transfers.

The Board has modified this condition to: (1) Limit the participant's board of directors' review of the roles

⁵ In cases where a U.S. branch of a foreign bank wishes to be a participant in an arrangement subject to this policy, and its board of directors has a more limited role in the bank's management than a U.S. board, the role and responsibilities of the service provider should be reviewed by senior management at the foreign bank's head office that exercises authority over the foreign bank equivalent to the authority exercised by a board of directors over a U.S. depository institution.

and responsibilities of the service provider to arrangements where the service provider is not affiliated with the participant; (2) eliminate the language that limits the condition to funds-transfer arrangements; (3) clarify that certain issues to be considered by the board of directors are pertinent only to line-of-credit arrangements; and (4) encompass arrangements where more than one service provider handles a participant's transfer activity. The Board also acknowledges that the board of directors of a foreign bank might have more limited responsibilities than those typical of a U.S. board and has indicated that whatever body exercises similar authority in these situations would be the appropriate decision-maker with respect to the provisions of this policy that fall within the purview of a participant's board of directors.

F. Backup

Revised Condition (#5)

The Board expects all participants to ensure that their Fedwire operations could be resumed in a reasonable period of time in the event of an operating outage, consistent with the requirement to maintain adequate contingency backup capabilities as set forth in the interagency policy (FFIEC SP-5, July 1989). A participant is not relieved of such responsibility because it contracts with a service provider.

Revised Condition (#6)

In cases where the service provider is not affiliated with the participant through at least 80 percent common ownership, the participant must be able to continue Fedwire operations if the participant is unable to continue its service provider arrangement (e.g., in the event the Reserve Bank or the participant's primary supervisor terminates the service provider arrangement).

Original Condition (#8)

The institution must have adequate backup procedures and facilities to cover equipment failure or other developments affecting the adequacy of the service being provided. This backup must provide the Reserve Bank with the ability to terminate a service-provider arrangement.

The original backup requirement had two facets: (1) contingency backup to enable recovery in the event of an operating outage and (2) the ability of the participant to continue transfer activity in the event the arrangement with the service provider is terminated. The Board expects all Fedwire participants to maintain adequate contingency backup capabilities in accordance with the policy adopted by the federal banking regulatory agencies; a participant is not relieved of such responsibility because it contracts with a service provider. Revised condition #5 references explicitly the interagency policy that requires a depository