



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIRMAN

July 9, 2019

The Honorable Denny Heck
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Thank you for your letter dated June 18, 2019, regarding the prevalence of wire fraud in the United States. The Federal Reserve Board (Board) has been actively engaged in efforts to respond to the increasing threat of large-value payments fraud. As you noted in your letter, fraud in wire payments can include large-value payments in connection with real estate transactions.

To combat this issue you suggested requiring “payee matching” for wire transfers, where the beneficiary’s bank would check to see that the name on the payment order matches the name on the account to be credited. However, this approach presents legal and operational challenges. U.S. large-value funds transfer systems are generally governed by a uniform state law¹ that governs funds transfers, which the Board incorporated into its regulation² that governs the Fedwire Funds service. For example, when a beneficiary’s bank receives a payment order that identifies a customer by both a name and an account number, the bank is permitted to rely on the number as the proper identification. To require otherwise would create significant operational obstacles to processing the hundreds of thousands of wire payments that occur each day. The vast majority of wires are processed by automated means using machines capable of reading standard payment order formats that identify the beneficiary’s account.

Requiring banks to obtain appropriate identification from customers before opening an account is one way to combat this type of fraud. The federal banking agencies’ Customer Identification Program (CIP) joint rule requires banks to obtain sufficient information from their customers in order to form a reasonable belief regarding the identity of each customer.³ The CIP rule requires verification procedures designed to ensure that financial institutions know their customers and to assist in identifying potential bad actors.

¹ See Uniform Commercial Code, Article 4A.

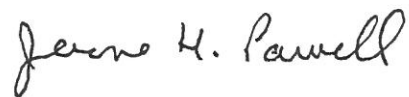
² See Regulation J, 12 C.F.R. Part 210, <https://www.federalreserve.gov/supervisionreg/regjcg.htm>.

³ See 31 C.F.R. § 1020.220.

Additionally, the Federal Reserve has been engaged in efforts to reduce fraud more broadly in wire payments. We have worked collaboratively with other central banks as part of the efforts by the Bank for International Settlement's Committee on Payments and Market Infrastructures (CPMI) to reduce the risk of wholesale payments fraud related to endpoint security with the broader objective of supporting financial stability.⁴ As a result, the Federal Reserve and CPMI member central banks have developed a strategy to encourage and focus industry efforts to reduce the risk of fraud related to endpoint security.⁵ The strategy includes key elements that payment system and messaging operators should consider as part of their efforts to mitigate payments fraud and it encourages a holistic approach to address all areas relevant to preventing, detecting, responding to and communicating about fraud.

We appreciate your concerns and the information you provided on this important issue.

Sincerely,

A handwritten signature in cursive script that reads "Jerome H. Powell".

⁴ See <https://www.federalreserve.gov/newsevents/pressreleases/other20180508a.htm>.

⁵ See <https://www.bis.org/cpmi/publ/d178.pdf>.