Amendments to Operating Circulars 6 and 12

In anticipation of the introduction of new Fedline On-Line access products, Appendix A to Operating Circular 6 "Funds Transfers through Fedwire" and Appendix B to Operating Circular 12 "Multilateral Settlement" are amended, effective May 11, 2001,as follows:

(1) Paragraph 2.2 of Appendix A to Operating Circular 6 is amended by adding the following sentence to the end of the paragraph:

> All of the On-Line Security Procedures require the bank issuing or receiving payment orders on-line to implement physical security as well as management controls that protect the hardware, software, and tokens from unauthorized use.

(2) Paragraph 2.3 of Appendix A to Operating Circular 6 is amended by deleting the last sentence.

(3) Appendix A to Operating Circular 6 is amended by adding the following new paragraph:

> 2.4   The procedures are more specifically described in the security documentation provided by the Reserve Bank. Depending on the sender or receiving bank's method of accessing the Reserve Bank on-line, the security documentation may include the Computer Interface Protocol Specifications (CIPS), the Fedline® Users Guide, the FedLine PC Administrator's Guide, The FedLine Management Guide, the Securing Your Window to FedLine video or the Local Security Administrator Guide. The sender or receiving bank is responsible for implementing the procedures set forth in the applicable security documentation provided to it by the Reserve Bank as well as any subsequent modification to the procedures that are designed to strengthen the security procedures.

(4) Appendix B to Operating Circulars 12 is amended by replacing the existing security procedures and agreement with the following:

Appendix B Security Procedures

1.0 General

> 1.1 The following Security Procedures are offered by the Processing Reserve Bank to
>
> each Settlement Agent that is authorized to send a Settlement File to the Processing
>
> Reserve Bank for the purpose of verifying the authenticity of a Settlement File or a
>
> communication amending or canceling a Settlement File (collectively a "Settlement

Instruction"). The Security Procedures are not used to detect an error in the transmission or the content of the Settlement Instruction.

1.2 Prior to selecting a Security Procedure, a Settlement Agent should consider the degree to which the various options satisfy its business needs given the size, type and frequency of Settlement Instructions normally issued by the Settlement Agent to the Processing Reserve Bank.

2.0 On-Line Security Procedures

2.1 The Reserve Banks offer one or more On-Line Security Procedures. On-Line Security Procedures are available to a Settlement Agent that issues a Settlement Instruction by means of an encrypted dedicated or dial-up communications line between its computer and the Processing Reserve Bank's computer utilizing a hardware/software system certified by a Reserve Bank.

2.2 On-Line Security Procedures are incorporated in the hardware and software associated with the computer. In general, the procedures include access controls such as an identification code and a confidential password that allow a Settlement Agent to access the settlement system, and also include encryption of a Settlement Instruction during the transmission process. All of the On-Line Security Procedures require the Settlement Agent to implement physical security as well as management controls that protect the hardware, software, and tokens from unauthorized use.

2.3 The primary differences between the various On-Line Security Procedures relate to the strength of the encryption algorithm and/or the type of software used to access the settlement system.

2.4 The procedures are more specifically described in the security documentation provided by the Reserve Bank. Depending on the Settlement Agent's method of accessing the Processing Reserve Bank on-line, the security documentation may include the Computer Interface Protocol Specifications (CIPS), the Fedline[®] Users Guide, the FedLine PC Administrator's Guide, The FedLine Management Guide, the Securing Your Window to FedLine video or the Local Security Administrator Guide. The Settlement Agent is responsible for implementing the procedures set forth in the applicable security documentation provided to it by the Reserve Bank as well as any subsequent modification to the procedures that are designed to strengthen the security procedures.

3.0 Off-Line Security Procedure

3.1 The Off-Line Security Procedure is available when a Settlement Agent that normally issues a Settlement Instruction by means of an encrypted dedicated or dial-up communications line using one of the On-Line Security Procedures is unable to do so because of an equipment or communications failure or other circumstances.

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3.2 In general, when a Settlement Instruction is issued, the Off-Line Security Procedure involves the use of identification of an employee of the Settlement Agent and may involve a call back or listen back procedure by the Processing Reserve Bank.

3.3 The names of the employees of the Settlement Agent who are authorized to authenticate or issue a Settlement Instruction must be provided by the Settlement Agent to the Processing Reserve Bank. The list of authorized employees must be in writing and must be signed by an individual with authority to conduct business on behalf of the Settlement Agent.

Appendix B-1 Settlement Agent and Security Agreement

[To be typed on letterhead stationery of Settlement Agent]

Federal Reserve Bank of _____ .

Attention:

Host Reserve Bank:

We have been designated Settlement Agent of _____, a Settlement Arrangement, and accept that designation.

(Describe nature of Settlement Arrangement)

We agree to the terms of your Operating Circular 12 and its Appendix B as they may be revised from time to time. Enclosed is a list of the current Participants and Settlers of the Settlement Arrangement and a Settler Agreement from each of the Settlers. We will inform you of any change in Participants or Settlers.

We designate _____ as the Settler whose Master Account may be debited for any fees or charges for the Settlement Account and the services provided by the

Reserve Banks.

If we use an encrypted communication line with access controls for the transmission of a Settlement File to the Processing Reserve Bank, we will choose one of the On-Line Security Procedures offered as generally described in Appendix B to the Circular, as such Security Procedure may be modified from time to time by the Processing Reserve Bank. If the Processing Reserve Bank offers more than one On-Line Security Procedure, when we use one of the On-Line Security Procedures, we reject the other On-Line Security Procedures. The chosen On-Line Security Procedure will be used for the purpose of verifying that a Settlement File was issued by us.

If we use the telephone to orally transmit a Settlement Instruction to the Processing Reserve Bank, we reject the On-Line Security Procedures offered by the Processing Reserve Bank and choose the Off-Line Security Procedure generally described in Appendix B to the Circular, as such Security Procedure may be modified from time to time by the Processing Reserve Bank. This Security Procedure will be used for the purpose of verifying that a Settlement Instruction was issued by us.

Whenever we use your Off-Line Security Procedure or one of your On-Line Security Procedures, we agree to be bound by any Settlement Instruction, whether or not authorized, if it was issued in our name and accepted by the Processing Reserve Bank in compliance with such procedure.

We understand that the On-Line and Off-Line Security Procedures will not be used to detect an error in the transmission or content of a Settlement Instruction.

We also understand and agree that the Security Procedures established by this Agreement may be changed only by an amendment to Appendix B or other written agreement. The

Agreement may not be changed by an oral agreement or by a course of dealing or custom.

_____

(Name of Settlement Agent)

By:_____

Title: _____