

## IT Handbook Presentation FedLine Booklet

**Visual**

**Narrative**

1. *IT Handbook Presentations*

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**FedLine  
Booklet**



2. *Payment System Booklets*

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- **FedLine**
- **Retail**
- **Wholesale**



3. *Registered Servicemarks*

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*FedLine, DOS-based FedLine, FedLine for the Web, and Fedwire are registered servicemarks of the Federal Reserve Banks.*

4. *FedLine*

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- **DOS-based FedLine**
- **FedLine for the Web**

The FedLine booklet is one of three booklets within the FFIEC IT Examination Handbook relating to payment systems:

- FedLine,
- Retail, and
- Wholesale

FedLine<sup>®</sup>, DOS-based FedLine<sup>®</sup>, FedLine for the Web<sup>®</sup>, and Fedwire<sup>®</sup> are registered servicemarks of the Federal Reserve Banks.

The term FedLine is generally used to refer to two electronic-delivery products:

- DOS-based FedLine and
- FedLine for the Web.

Both are proprietary products developed and licensed by the Federal Reserve Banks.

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5. **DOS-Based FedLine**



DOS-based FedLine is a standalone PC-based system comprised of hardware and software providing access to Federal Reserve financial services, including access to Fedwire Funds Service.

6. **DOS-Based FedLine**



Financial institutions access the Federal Reserve Bank's host computer through a secure dial-up session.

7. **DOS-Based FedLine**

**Applications:**

- Funds Transfer

Although the Fedwire funds transfer, or FT, application is the most commonly associated with DOS-based FedLine, it also offers many other applications that are important to an institution's daily operations. These applications include:

8. **DOS-Based FedLine**

**Application Codes:**

- FT            - CH
- AA            - RA
- AH            - RR
- AS            - SB
- BA            - TI
- CA            - TT&L

- Automated Auction,
- Automated Clearing House,
- Accounting Services,
- Book-Entry Securities,
- Check Adjustments,
- Check Services,
- Local Reserve Account,
- Reporting and Reserves,
- Savings Bonds,
- Treasury Investment Program, and
- And Treasury, Tax, and Loan (or TT&L.)

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9.

***Accounting Services Application***



**Account**

Tools:

- Manage account
- Avoid overdrafts
- Comply with PSR Policy

For example, the accounting services, or AS, application allows an institution to perform account balancing and monitoring functions, providing the tools needed to manage its Federal Reserve account, avoid daylight overdrafts and comply with the Federal Reserve’s Payment System Risk (PSR) Policy.

10.

***AH Application***

**...originate and receive ACH debit and credit batch files**



Another example is the Automated Clearinghouse, or AH application, which allows financial institutions to originate and receive ACH debit and credit batch files, covering a variety of payment-related transactions associated with the institution’s business activities.

11.

***FedLine for the Web***



FedLine for the Web currently allows financial institution access to Federal Reserve financial and reporting services,

12.

***Financial/Reporting Services***

- **Currency and coin ordering**
- **Check adjustment and image information**
- **Payor bank and deposit services**

Including:

- Currency and coin ordering,
- Check adjustment and image information, and
- Payer bank and deposit services, such as electronic cash letters and check advice delivery.

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13.

***Planned Update***

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**Higher-risk payment applications:**

- Funds transfer messages
- ACH files

The Federal Reserve Banks are also planning for the introduction of higher-risk payment applications, allowing for the creation and transmission of funds transfer messages and ACH files, in future versions of FedLine for the Web.

14.

***Planned Update***

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**Higher-risk payment applications:**

- Funds transfer messages
- ACH files



As these higher-risk payment applications are introduced, the FedLine Booklet will be revised to provide examiners with the information needed to evaluate the necessary internal control environment.

15.

***FedLine***

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- DOS-based FedLine
- FedLine for the Web

Even though both FedLine products provide multiple capabilities, readers will find that the FedLine Booklet focuses primarily on the FT application in DOS-based FedLine.

16.

***High-Level Security Requirements***

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This focus reflects the nature of Fedwire Funds Service, a large-value real-time gross settlement system (RTGS),

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17.

***High-Level Security Requirements***



designed to settle each funds transfer message individually against the financial institution's reserve or clearing account.

18.

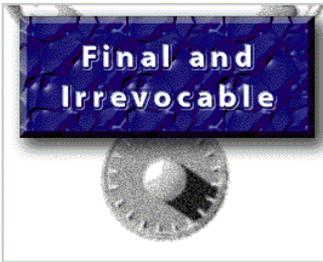
***High-Level Security Requirements***



Settlement is complete as the transfer is processed, and each Fedwire transfer is considered a

19.

***High-Level Security Requirements***



final and irrevocable payment.

20.

***High-Level Security Requirements***



Fedwire processing requires a high level of physical and logical security controls to ensure that fraudulent funds transfer messages are not generated or transferred and to protect the institution against inadvertent errors or omissions.

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21.



That being the case, the booklet and this presentation use the term FedLine to refer specifically to the FT application in DOS-based FedLine.

22.



Let's take a more detailed look at the specific nature of FedLine's FT application.

In total, FedLine consists of:

- A DOS-based computer,
- FedLine proprietary hardware and software,
- Extensive documentation,
- Comprehensive real-time support,
- Dial-up connection to the Federal Reserve Bank's host computer, and
- A contractual agreement.

23.



The contractual agreement must be signed by institutions using the service. By doing so, financial institutions agree to follow the

24.



standards and procedures as detailed in Federal Reserve Bank Operating Circulars 5 and 6. These circulars are available as on-line resources in this InfoBase.

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25.

*FedLine Dial-Up Access*



The FedLine system provides a secure FT capability to approximately 8,000 community and regional financial institutions. These financial institutions process a small number of FT messages on a weekly or daily basis.

26.

*Fedwire CI Connections*

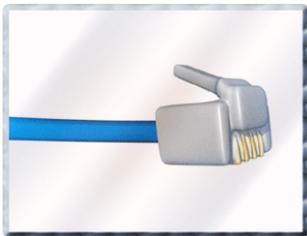


Larger financial institutions, typically generating a significant number of large-value funds transfer messages daily, are usually engaged in business activity requiring a high-volume funds transfer processing capability.

These financial institutions invest in off-the-shelf or custom funds transfer software to connect to Fedwire Funds Service using high-speed, dedicated computer interface (CI) connections.

27.

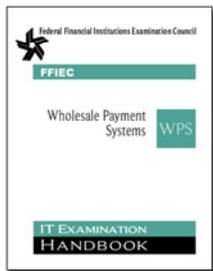
*Fedwire CI Connections*



CI connections and other issues important in Fedwire Funds Service are covered in detail in the

28.

*Wholesale Booklet*



Wholesale Payments Booklet, where examiners and financial institution staff working within the funds transfer operation will find resources complementing the information in the FedLine Booklet.

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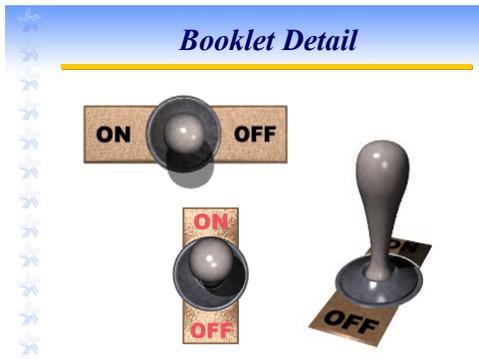
29.



So, the FedLine Booklet covers a specific set of hardware and software, and concentrates on one function in that system, the FT application. That is, the booklet primarily concentrates on the use of DOS-based FedLine to access the Federal Reserve Bank's real-time funds transfer system, Fedwire.

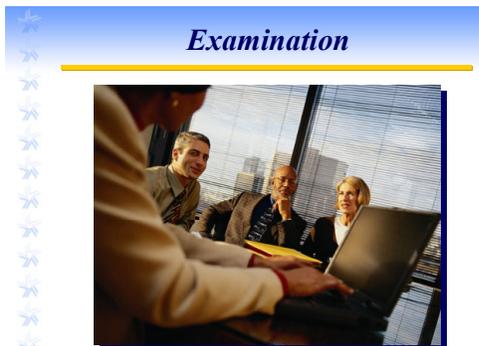
That makes for a major difference between this booklet and other FFIEC IT Examination Handbook booklets. Readers will find the FedLine Booklet is fairly specific.

In some cases, down to the level of a recommended parameter setting.



However, it is important to keep in mind this specificity does not necessarily mean the recommended settings are the only valid option for a particular institution.

30.



Just as with other IT examination areas, examiners must look at each situation in context. A financial institution may have a compelling reason to use a setting other than the one recommended in the FedLine Booklet.

31.



The question should be "is a particular setting an unwarranted control weakness or is it

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32.



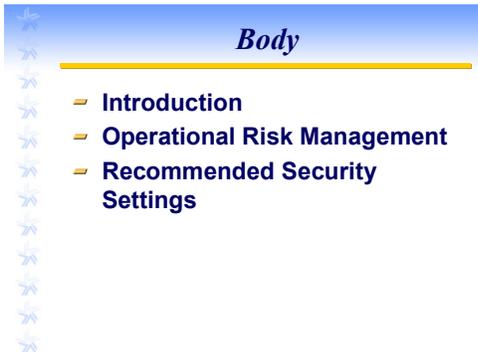
warranted because the financial institution justified the setting based on a knowledgeable assessment of the risk to its particular operating environment and business needs?"

33.



Now let's take a look at the booklet itself.

34.



The body of the booklet is organized into three sections:

- Introduction,
- Operational Risk Management, and
- Recommended Security Settings.

35.



After a brief introduction, the booklet outlines the specific types of risks inherent in FedLine, the FT application, and funds transfer operations. Risk management practices and controls are also identified based on what financial institutions need to consider in managing these risks.

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36.

***Operational Risk Management***

- Physical security controls
- Administrative controls
- Logical access controls
- Procedural controls
- Business continuity planning

The following areas of risk are defined:

- Physical security controls,
- Administrative controls,
- Logical access controls,
- Procedural controls, and
- Business continuity planning.

37.

***Integrated Risk Management***

- Financial institution plans
  - Information security
  - Business continuity planning
  - Testing
  - Audit
- Vendor management oversight

In some cases, the discussion emphasizes the importance of including the FedLine and FT application associated risks into other financial institution risk management activities, such as information security, business continuity planning and testing, audit, and vendor management oversight.

38.

***BCP Integration***



For example, FedLine should be a specific consideration in a financial institution's business continuity planning. Therefore, the absence of FedLine-specific recovery and resumption steps in a business continuity plan should raise concern during an examination.

39.

***Unique Considerations***



In other cases, readers will find that the risk management techniques discussed in this booklet are very specific to FedLine.

For example, there is a detailed discussion about risk management as it applies to the Local Security Administrator (LSA) assigning and controlling staff member access levels within the FedLine FT application.

	<b>Visual</b>	<b>Narrative</b>
40.	<div style="border: 1px solid blue; background-color: #e6f2ff; padding: 5px; margin-bottom: 5px;"> <p style="text-align: center;"><i><b>Body</b></i></p> <hr style="border: 1px solid yellow;"/> <ul style="list-style-type: none"> <li>- Introduction</li> <li>- Operational Risk Management</li> <li>- <b>Recommended Security Settings</b></li> </ul> </div>	<p>The last section in the body of the booklet highlights some of the recommended settings for the FT application.</p>
41.	<div style="border: 1px solid blue; background-color: #e6f2ff; padding: 5px; margin-bottom: 5px;"> <p style="text-align: center;"><i><b>Recommended Settings</b></i></p> <hr style="border: 1px solid yellow;"/> <ul style="list-style-type: none"> <li>- <b>Miscellaneous security settings</b></li> <li>- <b>Update funds application attributes</b></li> <li>- <b>Update verify fields</b></li> </ul> </div>	<p>These recommendations include settings related to:</p> <ul style="list-style-type: none"> <li>▪ Miscellaneous Security Settings</li> <li>▪ Update Funds Application Attributes</li> <li>▪ Update Verify Fields</li> </ul> <p>Additional information concerning security settings can be found in the FedLine documentation.</p>
42.	<div style="border: 1px solid blue; background-color: #e6f2ff; padding: 5px; margin-bottom: 5px;"> <p style="text-align: center;"><i><b>FedLine Booklet</b></i></p> <hr style="border: 1px solid yellow;"/> <ul style="list-style-type: none"> <li>- Main body</li> <li>- <b>Appendices</b></li> </ul> </div>	<p>The booklet has six appendices.</p>
43.	<div style="border: 1px solid blue; background-color: #e6f2ff; padding: 5px; margin-bottom: 5px;"> <p style="text-align: center;"><i><b>Booklet Appendices</b></i></p> <hr style="border: 1px solid yellow;"/> <ul style="list-style-type: none"> <li>- <b>A: Examination Procedures</b></li> <li>- <b>B: Glossary</b></li> <li>- <b>C: Laws, Regulations, and Guidance</b></li> </ul> </div>	<p>Appendices A to C are the:</p> <ul style="list-style-type: none"> <li>▪ Examination Procedures,</li> <li>▪ Glossary, and</li> <li>▪ References,</li> </ul> <p>standard to most of the FFIEC IT Examination Handbook booklets.</p>

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44. **Booklet Appendices**

- **A: Examination Procedures**
- **B: Glossary**
- **C: Laws, Regulations, and Guidance**

Appendix A includes the FedLine examination procedures to be used to review and assess the FedLine control environment, including:

45. **Examination Procedures**

- **Documentation**
- **Physical security controls**
- **Control environment and security settings**
- **Procedural controls**
- **Business continuity planning and disaster recovery capability**

- Documentation from prior examinations and relevant references relating to FedLine;
- Physical security controls surrounding the financial institution’s wire room, or designated FedLine PC work area;
- Control environment and security settings for the FedLine PC and the FT application;
- Procedural controls and related standards for the movement of funds into and out of specific customer and institution accounts; and
- Business continuity planning and disaster recovery capability, as they relate to funds transfer operations.

46. **Booklet Appendices**

- **A: Examination Procedures**
- **B: Glossary**
- **C: Laws, Regulations, and Guidance**

Appendices B and C, Glossary and References, are particularly helpful in understanding some of the expectations set forth in the FedLine Booklet—expectations about assigning and controlling the various access levels provided within FedLine.

47. **Booklet Appendices**

- **D: FedLine Applications and Codes**
- **E: FedLine Access Levels for the Funds Transfer Application**
- **F: FedLine Access Levels for the Local Administration Application**

The additional three appendices are references. Appendix D, FedLine applications and codes, lists all of the Federal Reserve financial services available through DOS-based FedLine.

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48.

***Booklet Appendices***

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- D: FedLine Applications and Codes
- E: FedLine Access Levels for the Funds Transfer Application
- F: FedLine Access Levels for the Local Administration Application

Appendices E and F, FedLine access levels available for the FT and Local Administration (LA) applications, describe the access levels required to perform specific functions within the FT and LA applications.

49.

***Appendix E***

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**FT Application Access Levels**

- Inquiry
- Entry/Update
- Verify/Transmit
- Assistant Supervisory
- Supervisor
- Managerial

Appendix E lists the specific functions that are accessible from each of the six access levels in the FedLine FT application, including inquiry, entry/update, verify/transmit, assistant supervisory, supervisor, and managerial.

50.

***Appendix F***

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**Local Administrator Access Levels**

- Non-restricted
- Inquiry
- Entry/Update
- Supervisor
- Managerial

Likewise, Appendix F lists the specific functions that are accessible in the FedLine LA application, which has five distinct access levels, including non-restricted, inquiry, entry/update, supervisor, and managerial.

51.

***FedLine FT Risks***

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In summary, we can say that financial institutions using DOS-based FedLine's FT application are exposed

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52.

***FedLine FT Risks***

- Operational (transaction)
- Credit
- Liquidity



to significant operational (transaction), credit, and liquidity risks unless certain physical and logical access controls are implemented correctly.

53.

***FedLine Booklet***



The use of the FT application provides financial institutions with an effective means to settle a variety of institution-specific and customer-related payment transactions in an efficient and secure manner. However, the potential risk (due to fraudulent transactions, errors, or omissions) requires careful planning and the establishment of an effective control environment.