



CHIPS NEWS BRIEFS

FOR THE CLEARING HOUSE INTERBANK PAYMENTS SYSTEM

10th EDITION, NOVEMBER 2005

Looking Ahead... Q&A with Hank Farrar

The following excerpt is from a Q&A with Hank Farrar and Virginie O'Shea, editor of *International Payments Magazine*. The story originally appeared in May 2005. To see the article in its entirety, go to www.informafinance.com/lip.



Over its 35 years of processing payments, how has the industry changed in terms of the popularity of different payment mechanisms?

With the globalization of commerce, the primary use of the CHIPS system has evolved from the settlement of large foreign exchange deals to all types of commercial payments — internationally and increasingly in the U.S. In addition, as check volume in the U.S. declines (now at a rate of 15% per year) some large value payment volume will likely migrate to CHIPS.



Hank Farrar is Senior Vice President of The Clearing House Payments Company, responsible for CHIPS. He joined the company in 1990, leading the strategy and growth of several TCH businesses, including CHIPS since August 2004.

Business-to-business electronic payments will grow as companies begin to receive remittance information with the payments and can post these payments as easily as they do checks. CHIPS carries this remittance information today to facilitate this end-to-end straight-through-processing.

When CHIPS started in 1970, high-value payments were done via checks, multi-part forms and paper or magnetic tape. With increased automation and innovations, such as the Universal Identification Code (UID), we now have a highly automated, real-time process that has a 94% straight-through-processing rate.

What will be the key issues for CHIPS over the coming year?

CHIPS will continue making progress on its priorities — implementing the new network options, working with interface software providers to provide easy access to CHIPS, adding new financial institutions to the system, working with our partners on global payments standards, fostering B2B electronic payments and more.

As there is increased concern about the issue of security in the industry, how is CHIPS coping with the pressure from regulators on anti-money laundering and SEC regulations?

CHIPS is a business of The Clearing House Payments Company, which has taken a leadership position on industry initiatives to address payment systems fraud and

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Eight Technology Providers Become CHIPS Network Partners

CHIPS has expanded its *Network Partners Program* to make it easier to access the world's premier real-time, final payments system.

"We're pleased to partner with these world-class technology providers to create cost-effective opportunities for institutions to benefit from CHIPS," said Hank Farrar, SVP and head of CHIPS.

CHIPS Network Partners Program provides financial institutions with access to cost-effective, turnkey solutions from leading software companies who specialize in building the CHIPS interface.

"CHIPS' Network Partners Program helps existing CHIPS

CHIPS Announces its Network Partners Program...
Easy and Cost-Effective Software Interfaces to CHIPS

Logos displayed: IntraNet, Dovetail Systems, FUNDtech, MISYS, hp, CHIPS, logicaGMC, GIFTS, MONTRAN.

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CHIPS Adds International Relationship Manager Long-Time TCH Manager to Focus on International Initiatives

For more than 35 years, CHIPS has been the preferred system for clearing U.S. dollars around the globe — and Joe Pawelczyk is making it his business to keep it that way.

Pawelczyk, a manager with 25 years of experience at The Clearing House, has been named to the new position of Vice President & International Relationship Manager. In his new role, Pawelczyk will support CHIPS' international strategy and initiatives, including efforts to increase awareness and expand U.S. dollar clearing in local markets around the globe.

"Our first priority is to develop a strategy that supports CHIPS banks in Asian and European markets," said Pawelczyk. **"I'll be working with CHIPS' participants, strategic partners and clearing groups to determine how CHIPS can help improve U.S. dollar clearing around the globe."**



Pawelczyk reports to Hank Farrar, Senior Vice President of The Clearing House Payments Company, responsible for CHIPS. He will work closely with Farrar to develop CHIPS' international strategies, promote CHIPS' capabilities and support the interests of financial institution participants.

"I'm looking forward to working with Joe in his new role," said Farrar. **"He knows CHIPS and its participants already through his years on the technology team working on CHIPS."**

Pawelczyk joined The Clearing House in 1981 as manager of CHIPS' technology support, performance measurement and management. Most recently, he was Vice President of Business Technical Consulting for The Clearing House, where he worked with TCH business units on their strategic and annual plans, and the technical requirements of the electronic payment and clearing systems operated by The Clearing House.

Joe Pawelczyk can be reached at 212.613.0111, joe.pawelczyk@chips.org



CHIPS Online Management Tools make it easy to view management information and access payment positions from anywhere in the world. View a demonstration at www.chips.org.

Looking Ahead... Q&A with Hank Farrar

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misuse. For example, The Clearing House was instrumental in helping to shape the USA PATRIOT Act and has numerous initiatives to address misuse and fraud in the payment systems. Years ago, CHIPS developed a highly efficient OFAC screening algorithm for its customers' use and continues to use this algorithm to provide a structured file to its customers to help them screen the names on the OFAC list.

Related to this, how has the introduction of Check 21 impacted on CHIPS?

Check 21, which eliminated the requirement that paper checks be returned to customers with their account statements, has not yet had an impact on CHIPS. However, we expect some high value B2B paper check volume will migrate to CHIPS.

With the increase in cross-border payments, what do you see as the key differences and related problems occurring between the integration of national payment systems, e.g. SEPA?

It may have been easier for the US to build and operate cohesive national systems for electronic payments because the efforts were undertaken many years ago by both the Federal Government, in the case of Fedwire, and the private sector, in the case of CHIPS. As a result, there were fewer participants in the market and less duplication of effort. And the depth of integration with bank systems was not as great at the time that US systems were being developed. The situation in Europe is different in that many countries already had firmly established electronic payment systems prior to the creation of a pan-European currency. The lack of standards and interoperability combined with the need to re-engineer back-office systems in these countries will make the process that much more difficult.

Hank Farrar can be reached at 212.613.9852, or hank.farrar@chips.org.



2005 Trade Show season wraps up

CHIPS Meets Participants and Prospects from Copenhagen to Phoenix

The CHIPS team took full advantage of the Fall trade show season to announce its new Network Partners Program, interview with the media and visit with prospects and participants.

Next year, CHIPS will exhibit at the following conferences, and will again co-host the annual dessert event at SIBOS with Omgeo and DTCC.

Event	Location	Month
NACHA Payments 2006	San Diego, CA	May
IFSA 2006	Hollywood, FL	September
SIBOS 2006	Sydney, AUS	October
AFP Annual Conference 2006	Las Vegas, NV	October

Eight Technology Providers Become CHIPS Network Partners

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participants too," Farrar said. "Many of our participants use these vendors today, and a closer relationship will benefit everyone. The new participants also bring additional volume and exchange partners."

CHIPS, working with the Network Partner and the financial institution, develops a business case that identifies the strategic, operational and financial benefits of using CHIPS. The implementation is then managed by CHIPS and the Network Partner, who have significant experience implementing CHIPS in the U.S. and around the world.

BB&T is the first financial institution to take advantage of the Network Partners program.

"The implementation is going very well," said Woody Tyner Senior, Vice President of BB&T. "We expect to be up and running in the first quarter 2006."

For additional information, visit www.chips.org or contact Vincent DeSantis at 212.613.0105, vincent.desantis@chips.org.



The Dessert Event at Sibos in Copenhagen provided an opportunity to catch up over chocolate with hundreds of guests. CHIPS will host a similar event again with DTCC and Omgeo in Sydney.



"The launch of Network Partners generated considerable interest with the media and prospects alike," said Chip Savidge, Marketing Director for CHIPS. "In fact, traffic at the booth was the best ever at Sibos and IFSA."



Many CHIPS participants attend IFSA each year, providing an ideal opportunity to discuss everything from operations fine-tuning to new business ideas in person. This year, the conference was held in Phoenix.



CHIPS Private Network — Live!

The new CHIPS Private TCP/IP Network is available — ready for your financial institution to use. If your financial institution has not yet scheduled a conversion date, contact Kevin Ransom at 212-613-0169 or Kevin.ransom@chips.org. The X.25 interface that the new Private Network replaces will no longer be available after April 2007.

“With the implementation of CHIPS Private Network, we now have all of The Clearing House’s payment services on a common TCP/IP platform,” said Al Wood, TCH Executive Vice President, responsible for Technology Operations. “This allows our customers to leverage shared network resources and helps us improve service delivery and manage expense.”

The SWIFTNet interface is also available for testing now and will be live in April 2006.

You can use one or both of these connectivity options, providing your financial institution with flexibility, resiliency and reduced risk.



CHIPS Sets Another Volume Record

If it’s beginning to sound like a broken record... it is! CHIPS set record volumes again in the Third Quarter. During September, CHIPS averaged 302,176 transactions per day making it the month with the highest daily average volume in CHIPS’ 35 year history.

This is a 9.9% increase over September 2004. CHIPS continues to add new participants and enhancements and expects continued positive growth in 2006 as these new banks begin moving volume to CHIPS.

FIRST QUARTER 2006 TELESEMINAR SCHEDULE

Registration Special! If you register during the month of December for one of the January 2006 classes, you can receive \$25.00 off the cost of the January class. Please use the promotion code **GOOD START** on the online registration form to take advantage of this special.

For a complete list of majors and courses for CHIPS and other payments topics, see www.paymentsuniversity.com.



THE PAYMENTS UNIVERSITY

Course	Date
Payments System Trends	January 23
Wire Payments 101	January 27
Wire Payments 102	February 3
CHIPS Overview	February 17
Comparative Payment Systems	March 16
OFAC/BSA Basics	March 17
CHIPS Message Analysis	March 24

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