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Dear CPMI Secretariat,

Barclays welcomes the opportunity to respond to the Committee on Payments and Market Infrastructures (CPMI) Consultative Report on Correspondent Banking. In particular, we welcome the CPMI's approach in requesting feedback on the four recommended measures proposed within the consultation, and agree with many of the issues raised within the paper.

We believe that a market that works well for correspondent banks, irrespective of volume of activity or size, underpinned with a clear and predictable regulatory framework is in the best interests of all users, including importantly end users and consumers. We agree that there are a number of key issues in correspondent banking involving security, cost, and regulatory compliance. However, we consider that one of the primary underlying problems is the industry-wide difficulty of ensuring that respondent banks are in compliance with applicable Financial Crime requirements and regulatory expectations, which is important to prevent firms involved in illicit activity from accessing the international payments system. Robust controls and checks are required to ensure that correspondent banking remains a viable and trusted activity for all market participants.

We have considered each of the proposals based on their perceived merit against costs, existing processes and potential impacts on consumers and markets.

The Use of KYC Utilities

We consider that a version of this suggestion is already in place. We were a founder participant and are already supporting the role out of this capability administered by SWIFT who we consider to be expertly placed to own and run the system, under the moniker: "SWIFT KYC Registry". Further success and benefits will be delivered as the adoption rate globally is increased, which we are actively supporting. Fundamentally, as the information meets the banks CDD/EDD requirements and is verified to a standard that the banks can rely on, we have confidence that this initiative will be a success. However, we have two concerns:

- 1) The possible dilution of benefits if the number of providers is increased, as banks will be required to provide/request the same information to/from additional utilities; and
- 2) Smaller institutions may object to the access costs. An industry approved sole global utility will undoubtedly help to solve this issue and help to avoid duplication and dilution. There is undoubtedly an opportunity for additional suppliers albeit with concentration on different sectors: Broker/Dealers and Multi-National Corporates, thus delivering a comprehensive CDD offering and aligned to the Correspondent Bank focused offering from SWIFT.

Particular issues to consider:

- Privacy issues. Countries may need to consider changes in data privacy regulations to allow for certain transaction data to be shared both within the country and cross-border. Under existing regulations utility functionality could be severely restricted.

- Timing. A utility can help to slow down processing times, particularly on a global/bank level, and it will be unable to replace or replicate banks' current EDD screening process.
- Consistency and accuracy. It will be difficult for the industry to maintain accuracy and consistency, and for the manager of the utility to monitor or assess if the information is up to date and accurate. Keeping this data clean, fresh, and perfect could pose a real challenge to the industry. The information is only as good as the input and if an institution wishes to willfully mislead – this remains entirely viable. Responsibility will always remain with the institution requesting the information.
- Mapping and tracking. It is probable that a special “key” will be required to sort and identify all the data, and to help with the management of protection and security.

LEI

We agree that the use of LEI is potentially a very useful additional piece of information to definitively identify a counter-party or client. There will no doubt be operational challenges such as where this information could be included in the transaction message but when combined with the Bic would be an excellent move forward. It would need a high level of adoption globally. Extension of such information into the personal/individual realm would again be very beneficial, but would in turn present significant challenge, not the least of which would likely be the legislation required. There would be significant investment needed to change/adapt the current payment infrastructure. A key requirement to ultimately deliver benefit is a high adoption level.

Information-Sharing

Any initiative that is co-ordinated across the industry and helps clarify KYCC requirements, and that allows banks to share intelligence data, is welcome. However, as mentioned in the report, the data privacy aspect may be very hard to overcome as inevitably, the countries that banks would have the most interest in obtaining data for also tend to be the countries with the strictest data privacy laws. Further understanding around customers' willingness for data of this nature to be collected, stored and shared may also be required. SWIFT may be the natural provider of this information on the assumption that they will have all of this information through the processing all payments.

Payment Messages

We would recommend keeping the MT202Cov. We do not consider that removing the option for banks to use the cover method would benefit clients or increase transparency. In addition, by potentially pushing for all payments to be made serial, clients could be hit with higher fees and possible delays should payments not be passed on quickly enough between banks to hit cut off times. In addition, payment investigations may be more complex if a large number of banks are involved in the payment chain. Whilst it will mean that banks can maintain less direct relationships with correspondents if they want to, we consider that it is better to allow Banks to choose how they wish to operate and route payments rather than dictating that a particular method must be used, providing of course they comply with all regulatory requirements.

The single biggest impact of requiring serial rather than cover payments is likely to be the increase in fees and thus the negative impact upon clients. Current convention allows a bank to take a deduction on an MT103 and not on an MT202Cov – thus sending the MT103 direct keeps these charges to a minimum.

We would welcome the opportunity to discuss with you any of our comments above.

Yours sincerely,

David Thornton
Director | INM | Global Transaction Banking