



CPMI Secretariat
Committee on Payments and Market Infrastructures
Centralbahnplatz 2
CH-4002 Basel Switzerland

3 December 2015

Re: Comments in Response to Consultative Report–Correspondent Banking

Dear CPMI Committee Members:

The SWIFT Payment Market Practice Group (PMPG) welcomes the opportunity to provide committee members with comments and observations on the consultative report on correspondent banking (the “Report”). Since its inception the PMPG’s mission is to recommend payments market practices in response to changing compliance requirements. As an independent body of payments subject matter experts from Asia Pacific, Europe and North America the PMPG provides a truly global forum to drive better market practices covering end-to-end transactions.

One of the initial market practice documents published by the PMPG supported the introduction of the MT202COV and therefore we are pleased that the CPMI has asked the PMPG to provide our insights into the suggested tools and practices. As a group of technical subject matter experts the PMPG will focus its remarks on the technical recommendations of the paper and not comment on any policy or compliance implications.

As practitioners we are pleased that the CPMI recognizes the importance of correspondent banking and that its capacity to facilitate cross-border payments is vital for businesses and individuals to function in the global market place. Ongoing investments in local payment market infrastructures will further increase the significance of the correspondent banking model to offer each other efficient access to the evolving global payments network. As members in this open payments network we are committed to seek opportunities to increase efficiencies and improve its resilience.

I. KYC utilities

Effective Customer Due Diligence (CDD) is the corner stone of banks’ compliance programs. In this continuously evolving field data collection remain a labor and time intensive activity that shared KYC repositories can help to address. As the Report points out KYC utilities can facilitate data collection, they do not alter the basic responsibility of correspondent banks to perform due diligence on their customers. The PMPG agrees with the Report’s recommendation that the industry should strive to standardize the data content of KYC utilities.

II. Legal Entity Identifiers (LEIs)

All payment systems around the globe rely on an effective member identification scheme that assigns a unique identifier to each participant in a payments network. Some use SWIFT BICs like CLS and Target2 others have proprietary codes like Fedwire ABA or UK sort codes. Extending this concept to all legal entity participants in financial transactions and payments in particular is useful from a PMPG perspective. In addition to the benefits outlined in the report the PMPG can see the following additional benefits:

- Reduce loss of data fidelity when representing entity names from countries using non Latin characters
- Increase speed in sanctions screening and reduce false positives. (This would require governments to include LEIs in their published sanction lists)
- Mitigate data truncation in address fields when Company name and address exceed the field size of SWIFT party fields.
- Reduce investigations by allowing beneficiary banks to validate the beneficiary LEI upon the payment against the account owner LEI on the account record.

The PMPG would like to point out that the SWIFT Ref directory already provides a cross reference between LEI and BIC. While an entity can have multiple BICs each BIC will have a unique LEI assigned to it and thus can enable bank identification.

The Report correctly identifies that the use of LEIs is limited to legal entities and that a similar scheme for individuals has not been created yet. A transactor identification program that also covers individuals may be considered.

While it is important to recognize that LEIs are the more reliable tool to unambiguously identify parties to financial transactions, we wish to underscore the fact that global payments systems have integrated the BIC as the primary identifier for account parties to transactions, and that this will likely remain the case for the foreseeable future. Any development of BIC to LEI mapping and any inclusion of the LEI in payment messages would require close coordination between the public and private sectors. In addition, it will be beneficial to consider separate LEI references / sequences for non-bank entities (e.g. currently under SCORE), as the regulatory reporting requirements for transactions undertaken by banks and corporates (or other non-bank entities) are often not the same.

III. Information Sharing

The PMPG cannot comment on the perceived extension of diligence requirements to our customer's customer and will leave the detailed discussion to other industry bodies such as The Clearinghouse and BAFT. However, from a practitioners point of view the PMPG would like to highlight that compliance related investigations are on the rise and that their manual handling does increase the cost for the intermediary banks. Especially the introduction of sectorial sanctions requires the intermediary banks not just to screen party details but also for the purpose of the payment. Lack of standardization in this are contributes to manual operations and cost.

Use of the aforementioned LEI and central directories cannot just automate the identification of entities but also industry sectors and supply chain relationships. A further enhancement the industry should look at is the use of standardized purpose of payment codes.

IV. MT103 and MT202COV

The corner stone of the correspondent banking model is the correct use of the serial and the direct and cover messages. With the introduction of the MT202COV the PMPG has spent a lot of effort into describing market practices that cover the appropriate use of the MT202COV and MT202 message types. The PMPG is strongly recommending retaining the direct and covering method and in particular would like to point out that:

- Clearing systems limitations as well as time zone considerations necessitate that the serial use and the direct and cover method remain relevant as
 - Fedwire as well as CHIPS do not support all the charge code options (e.g. OUR) and hence the serial method cannot provide a full value transfer, and
 - the use of the serial method has a potential impact on the ability to provide same day value into some markets (e.g. payments into Asia from outside of Asia). For example this can impact timely payment of port fees and delay vessels leaving port.
- Direct and cover messaging enables future advising and allows the beneficiary bank to advise the beneficiary about incoming funds before the value date.
- Messaging cost are not a significant decision factor in selecting direct over direct and cover. In fact serial messaging might increase the end to end cost as more parties, with their commercial interest, are involved in the payment chain. (page 27 in the Report)
- The responsibility to ensure that the MT202COV is correctly used and all party information is passed on rests with the regulatory authority of the country where the bank is located that is generating the direct and cover.

The PMPG would like to discuss in more detail the following statement in the Report:

[w]hen using the MT 103 in the serial method, the risk that a bank is unaware of missing information does not arise because all relevant information is included in the MT 103. If some information is missing, this will be obvious to every involved bank as not all fields in the message will be completed with the required information.¹

The PMPG does not agree with this statement as it assumes that the MT103 is the gold copy of the underlying party and transaction information. This is not the case as only the ordering bank, based on its KYC process, has the authoritative source on the ordering customer and the serial method does not provide any assurance against deceptive practices when generating the outbound payment order. Along the same line only the beneficiary bank has complete information about the account being credited and neither the ordering bank nor any intermediary will have the ability to determine if the party

¹ Page 27.

information is complete. Regulatory oversight for ordering and beneficiary banks has to include these technical aspects of the payment process in order to prevent missing and meaningless information.

In closing the PMPG would like to thank the CPMI again for highlighting the value that correspondent banking brings to the market and the opportunity to engage in a collaborative dialogue on how the correspondent banking model needs to be improved. Should you have any questions or need further clarification about any of the subjects discussed in this letter, please do not hesitate to contact us.

Regards

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