

NEW MESSAGE TYPE FOR COVER PAYMENTS

International pressure to provide more transparency, particularly in payment traffic, is continually increasing. Currently, the question being discussed worldwide is how banking transactions based on cover payments can be processed without financial institutions being suspected of money laundering and financing terrorism.

A US official suggested that the Iranian government was abusing «covered payments» during a television interview in July 2007. National Iranian institutions apparently were processing payments via the international finance system, naming foreign banks as ordering customers. European banks would routinely be used to cover up the true intentions. Such pretenses would be risky for European banks, since the financial institutions have no ties with terrorism and do not want to see their reputations irreparably damaged.

DEMANDS FOR TRANSPARENCY

The twelve globally active banks comprising the Wolfsberg Group have endorsed certain payment traffic standards (see their «Statement on Payment Message Standards»), wherein they commit not to alter or delete any information regarding the ordering customer with the intent to willfully conceal this information or to abuse a specific message format for that purpose. Upon request, the ordering customer information is to be supplied by the banks' correspondence banks involved in the payment chain in bank-to-bank cover payments that don't include any ordering customer information under the current SWIFT format.

In so doing, the banks adopted the Financial Action Task Force on Money Laundering (FATF) issues, which will be reflected in the Swiss Federal Banking Commission's revised SFBC Money Laundering Ordinance coming into effect July 1, 2008.

COVER PAYMENTS

The cover payment, message type MT202, is within the SWIFT bank-to-bank payments category and occurs in the name of and on the invoice of the ordering bank. Such a payment can – among other things – be based on a customer payment; this most often pertains to transactions in currencies outside the originator and beneficiary currency area. In this case, the payment is intended to provide ordering bank cover funds at the beneficiary bank via the correspondence bank network without providing customer information.

THE BALL LANDS IN SWIFT'S COURT

While the international community of regulators generally welcomes the increase in payment traffic transparency, it hasn't introduced an explicit regulation governing cover payments to date. To avoid possible misunderstandings, mention needs to be made that this measure is not restricted to the US-Dollar only, but also to all currencies, according to the opinion of the initiators. Thus, the requests for transparency apply worldwide and without being limited by currency or case law.

It was therefore up to SWIFT to meet the Wolfsberg Group's requests for transparency by means of a standards upgrade. It presented the SWIFT community with a proposed solution for a vote in January 2008. The majority of the SWIFT countries agreed with the proposal.

There was a vote taken among the Swiss SWIFT members, as well. The solution will be introduced in the Standards Release November 2009.

SOLUTION

MT202 and MT205 have been re-issued in new variations (MT202COV and MT205COV). In addition, a repeating sequence of the underlying customer payment has been added. This «expansion» does not apply to the core MT202 and MT205. These current message types remain unchanged, in order to avoid the aforementioned expansions affecting markets and financial institutions using the MT202 without providing cover funds. The correspondents involved in transaction clearing and settlement are thus enabled to filter the payments according to their requirements, since all customer and bank information is contained in the message continuously.

The specific details of the rather complex solution must be taken directly from the original SWIFT papers and analyzed. SWIFT or SWIFT Switzerland can be asked for support.

CONSEQUENCES

Not all standards changes also have an impact on business. However, these changes might potentially have a considerable effect on all 8,100 SWIFT participants and on market infrastructures. The payment processing chain must be adapted by the banks; during processing and forwarding of payment data to the cover banks in future, compliance inquiries will predictably increase.

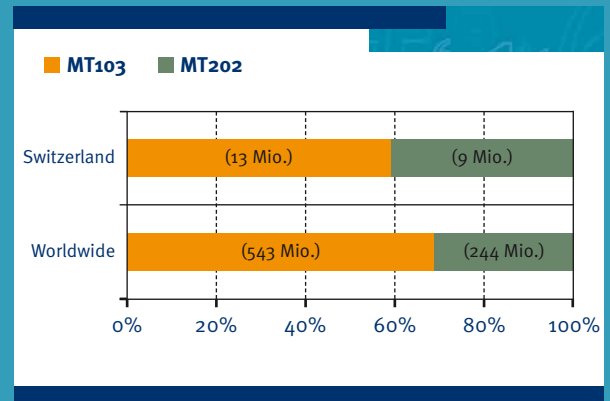
Another question that remains open is the impact on the Swiss national payment traffic that also uses B10 cover payments within the SIC system.

The Payments Committee Switzerland (PaCoS) concerns itself with the impacts on the banks' payment traffic and will inform them at the appropriate time about process, recommendations and possible changes. At this time, it's difficult to predict the effects on payment behavior in cross-border payment traffic. There, the MT202 volume is considerable (see chart). The fact is that the MT202COV is on its way, and we need to be ready. ■

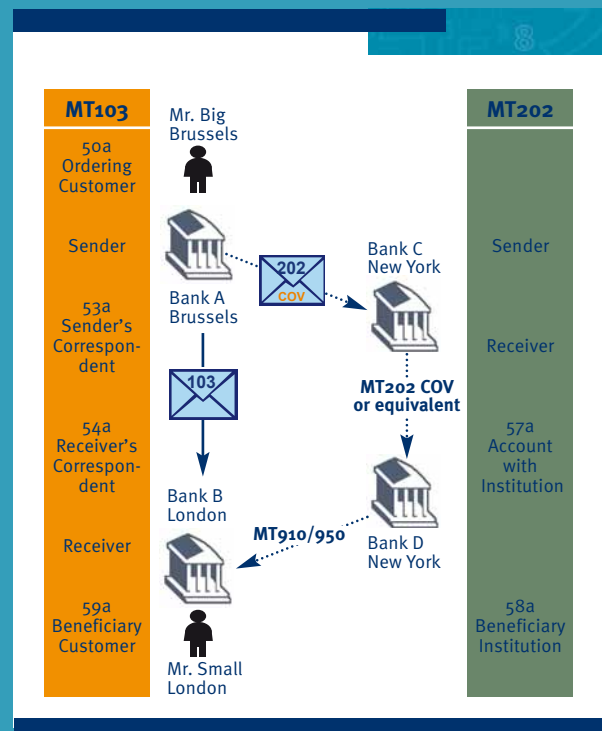
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BIG SIGNIFICANCE OF MT202 IN SWITZERLAND

(number of messages in 2007)



THE COVER PAYMENT FLOW



FATF AND PAYMENT TRAFFIC

The «Financial Action Task Force on Money Laundering» is an international organization founded in 1989 and counting 31 member nations. Its main goal is the development and support of principles to fight money laundering and financing of terrorism. To this end, 40 recommendations and nine special recommendations were issued. The Special recommendation VII – probably best known for payment traffic – states that for payment orders processing the information (name, address and account number) of the originating ordering customer must be passed along throughout the entire payment chain.