

The SWIFT MT 202 Cover Payment

20 August 2009

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Citi's Global Payments: Taking the Best and Making it Better

- **The only correspondent with leading market position across major infrastructures**

- Largest share of SWIFT traffic in the world
- U.S. Dollar marketshare: ranked #2 in CHIPS and #4 in Fedwire
- Euro marketshare: ranked #2 in EBA Euro 1 and Target2
- Yen marketshare: ranked #4 in FXYCS

- **State-of-the-art global processing platform**

- \$1bn investment to standardize transaction processing across the globe
- New artificial intelligence engine to enhance STP rates
- Multi-currency, rule based system with consistent functionality in all major currency markets

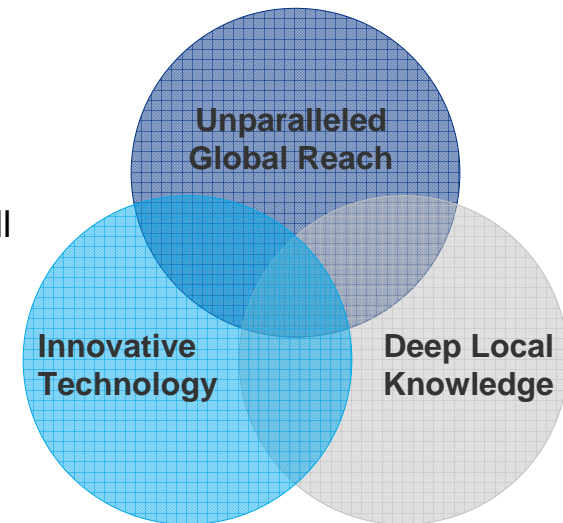
- **Robust Infrastructure and Service Model**

- Multiple processing sites with redundant communication links to clearing/messaging bodies along with back-up data centers
- Next generation service platform

- **Award-winning Service and Technology**

- Ranked best USD, Euro, Yen provider by Euromoney
- Ranked best Cash Management Bank for Financial Institutions by Global Finance
- Commended for Clearing & Settlement Technology by The Banker

Global Payments Expertise



What is MT 202 COV Message

For over 20 years banks received MT202's, but there was no identifying feature that said it was a cover message. The only reference to cover might be in field :72:

- MT 202 is primarily used for Financial Institution transfers and referred to as the traditional Swift MT202 and also called a serial MT202, will continue to be accepted by all banks and Clearing systems
- MT 202 is also used as a Cover message for transfers to beneficiary banks for ultimate credit to beneficiary banks already in receipt of MT103 client credit information. The MT103 is sent directly to the beneficiary bank whilst the funds transfer flows through Bank to Bank transfers (MT 202)
- The current cover message MT 202 provides no underlying beneficiary nor ordering customer information
- The **new** message format referred to as **MT 202 COV** will be implemented on Nov 21, 2009 and will incorporate ordering party information and beneficiary details
- The new message format will be adopted by all swift member banks
- Exemptions—Financial institution to financial institution transfers on settlements, where both the originator and the beneficiary are financial institutions acting on their own behalf are exempt from the COV requirements

Why A New Message Format

Regulatory requirement for transparency in SWIFT transactions.

- Regulatory Requirement
 - Anti Money Laundering/Financial Action Task Force Reg VII (appendix)
 - Developed to prevent money laundering and terrorist access to wire transfers
 - Required information
 - Ordering party, Beneficiary and payment information to intermediary financial institutions
- Bank of International Settlements—supports the enhancement of information relayed in wire transfers
- Transparency
 - Wolfsberg group in 2007 recommendations for increased transparency
 - Detailed information available to intermediary bank
- Compliance with Clearing and Messaging systems
 - SWIFT defined variant of the MT 202 captures the new mandatory information
 - Chips and Fed wire transfers will also comply with the MT202 COV requirements

Requirements for Financial Institutions Wire Transfers

FATF recommends termination or restriction of relationship for FI's that do not comply with FATF.

- Originating Institutions must ensure that qualifying wire transfers contain complete originator and beneficiary information and also
 - Verify information for accuracy and maintain info according to FATF standards
 - Use appropriate SWIFT message for all cover messages per SWIFT User Handbook
- Intermediary Financial Institution for both domestic and cross border wire transfers:
 - Ensure complete originator information accompanies each wire transfer
 - Ensure that wire transfers retain all original information
 - Where technical limitations prevent full originator info accompanying a cross border wire transfer, records must be kept for five years
- Beneficiary Financial Institution
 - Must have effective risk procedures to identify wire transfers lacking complete originator info
 - Lack of complete info maybe considered a factor in assessing status of transfer and whether reporting is required
- Under SWIFT standards, inclusion in the cover payment message of the originator and beneficiary information contained in the MT103 will be mandatory
- Messages with missing mandatory fields will be rejected by SWIFT

Exemptions to MT202 COV Requirement

- Financial institution to financial institution transfers and transaction settlement, where both the originator and the beneficiary are financial institution acting on their own behalf

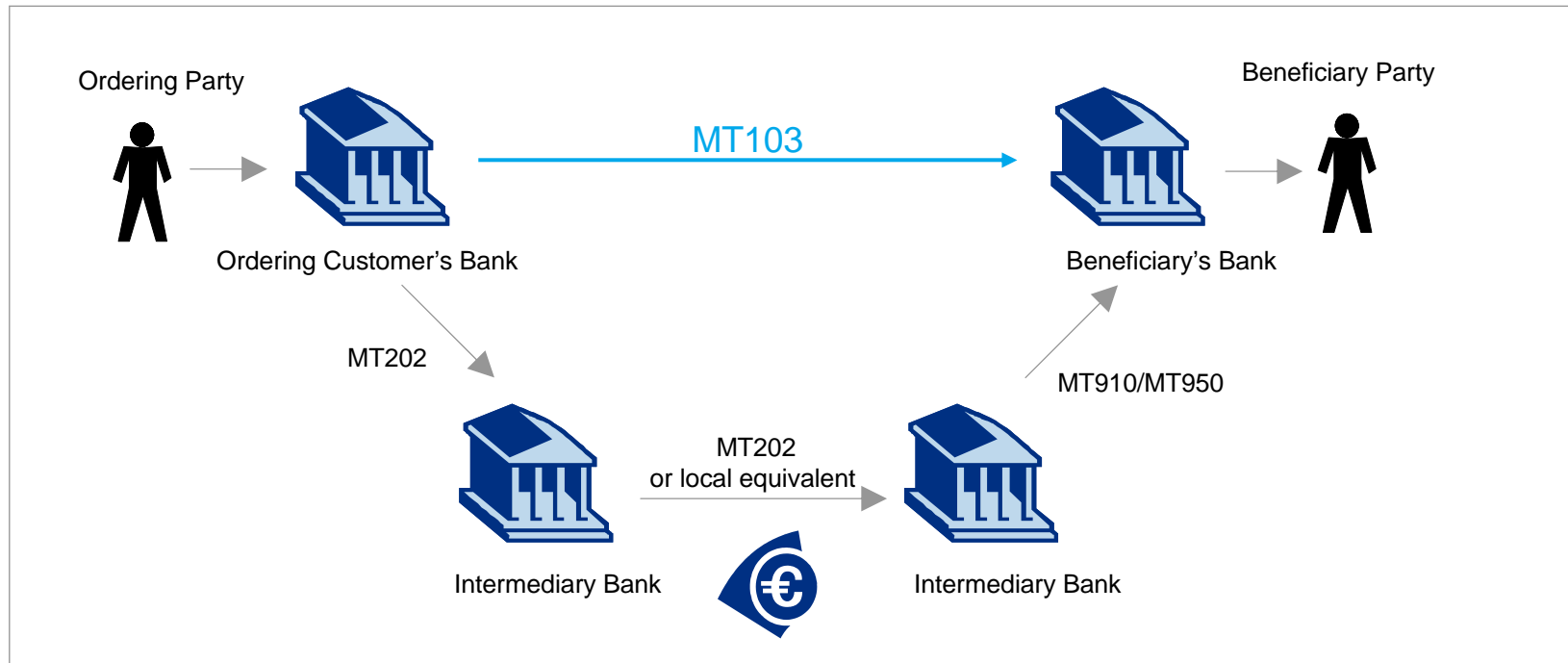
Financial Institutions – Do's and Don'ts

FATF recommends termination or restriction of relationship for FI's that do not comply with FATF.

- Financial Institutions should not omit, delete or alter information in any payment messages for the purpose of avoiding detection of that information by any other financial institution in the payment process
- Financial Institutions should not use any particular payment messages for the purpose of avoiding detection of information by any other FI in the payment process
- Subject to all applicable laws, Financial institutions should cooperate as fully as practicable with other financial institutions in the payment process when requested to provide information about the parties involved
- Financial institutions should take into account in their correspondent bank relationship the transparency practices of their correspondents
- Originator Bank policies should address
 - Record keeping
 - Verification of originator information
 - Message formats and the circumstances in which the formats should be used
 - Information to include in the messages
- Messages with a mandatory blank field will be rejected by SWIFT

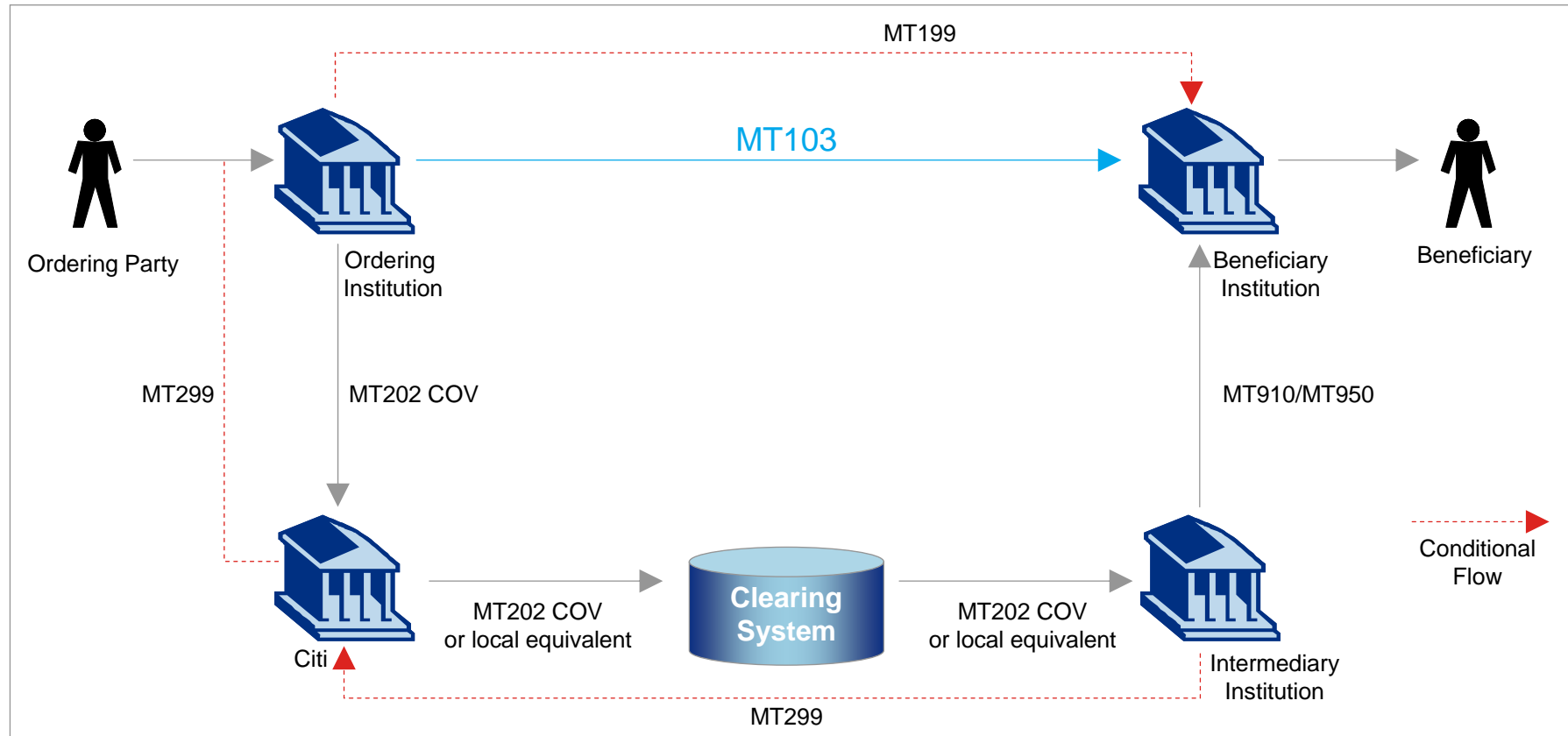
Current Process Flow MT 202 COV

Limitations identified in current message format.



- Today MT 202 cover messages provide limited information
- Detailed information is transmitted in MT103 to Beneficiary Bank
- Intermediary Bank has no visibility to underlying beneficiary information or originating party
- Potential AML or FATF non compliance due to lack of transparency

New MT 202 COV Process



- Ordering institution must generate the direct message (MT103) & the new MT202 COV
- Each intermediary will screen the MT202 COV and pass it on to the next bank in the chain preserving the full detail in the message (AML/FATF)
- Where regulatory screening of the MT202 COV causes a suspect hit and requires further investigation, requirement for MT 299 advise to sending bank informing of potential delay
- Ordering institution notifies beneficiary institution of delay

Client Solutions

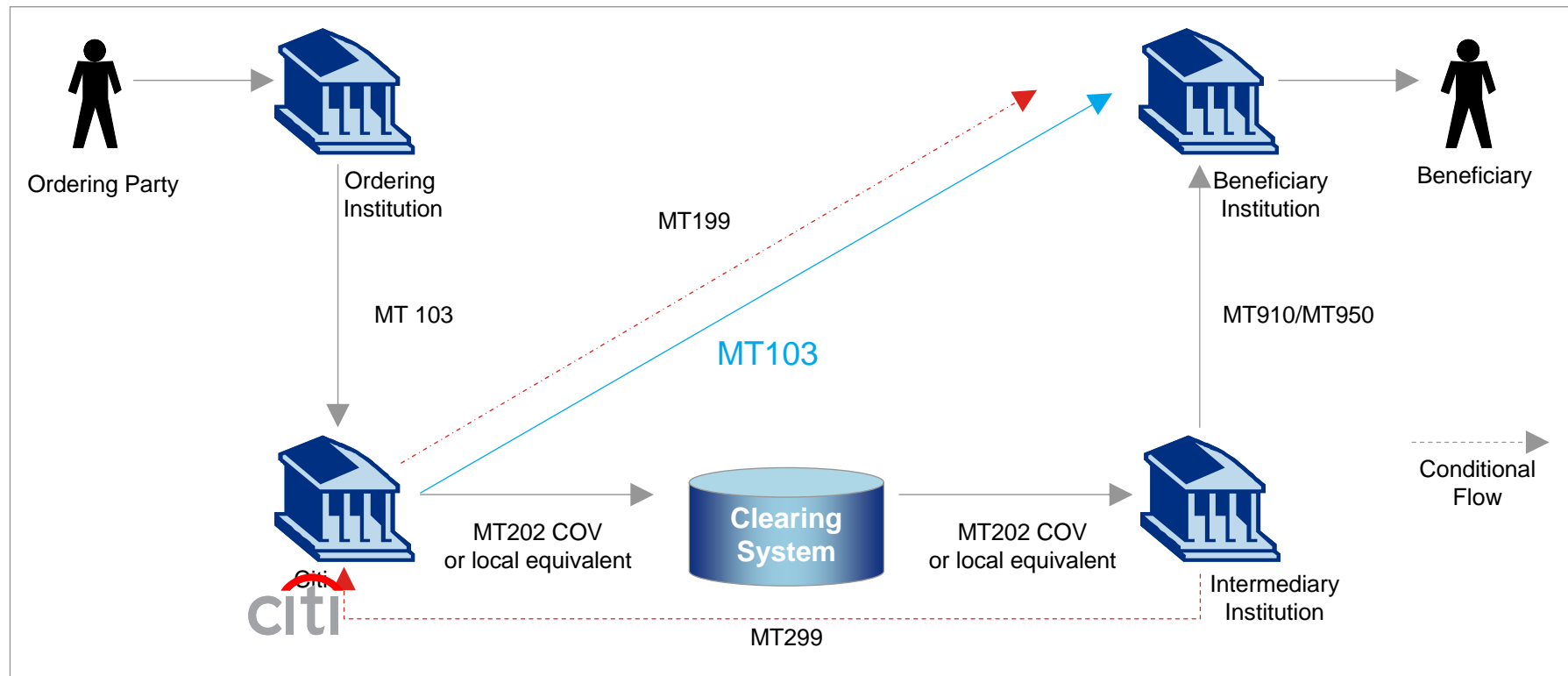
Financial institutions can still send Direct and Cover without developing the Capability whilst maintaining information transparency if they implement one of Citi's suggested solutions.

Citi proposes the following solutions for banks:

- Serial MT 103 messages
 - Transmit serial MT103 messages containing information as required by FATF i.e. beneficiary name, account number, name and address of ordering party
 - Citi will receive the Serial MT103 with the beneficiary bank details and send to next bank in the chain

- Same Day Split/Future Advising
 - Transmit serial MT103 messages containing information as required by FATF i.e. beneficiary name, account number, name and address of ordering party
 - Citi will receive the Serial MT103 with the all details including beneficiary bank
 - Message will be split into MT 202 COV for the intermediary bank and MT103 which is relayed directly to beneficiary bank
 - Onward transmission of both messages to Intermediary and Beneficiary banks

Same Day Split/Future Advising Flow



- Ordering institution generates MT103 relayed directly to Citi
- Citi will split the ordering bank MT103 message into MT103 (bene bank) and MT202 COV (Intermediary bank)
- Each intermediary will screen the MT202 COV and pass it on to the next bank in the chain preserving the full detail in the message
- In the event the regulatory screening process of the MT202 COV causes a suspect hit and requires further investigation a potential delay should be advised to the sending bank via MT299
- 9 • The ordering party will then notify the beneficiary institution

Appendix

Financial Action Task Force FATF SRVII - Background

- **The Financial Action Task Force (FATF) is an inter-governmental body whose purpose is the development and promotion of national and international policies to combat money laundering and terrorist financing. The FATF is therefore a "policy-making body" created in 1989 that works to generate the necessary political will to bring about legislative and regulatory reforms in these areas. The FATF has published numerous Recommendations in order to meet this objective**
- **EU is transposing Special Recommendation (SR) VII into the law of the its Member States**
- **SR VII has been issued with the objective of preventing terrorists and other criminals from having unfettered access to wire transfers for moving their funds and for detecting such misuse when it occurs**
- **Payment Service Provider - A natural or legal person whose business includes the provision of transfer of funds services**
- **The core requirement of this regulation is that the Payments Service Provider (PSP) is to ensure that all electronic payments, both incoming and outgoing, carry specified information about the originator (the Payer) of the instruction.**
- **Complete payer information needs to accompany transfer of funds**
 - Complete payer information consists of
 - Account number
(or unique identifier if an account number does not exist)
 - Name
 - Address
- **Citi will be classifying all accounts that are linked to a Swift code as a PSP initially**

Message Format

Tag	Status	Field Name	Content/Options	Example
		Sender		AAAABEBB
		Message Type		202
		Receiver		CCCCUS33
119:		Validation flag		:119:COV

Tag	Status	Field Name	Content/Options	Format
		General Information		
20	Mandatory	Transaction reference number	16X	:20 : 090525 / 124COV
21	Mandatory	Related reference ⁽¹⁾	16X	:21 : 090525 / 123COV
32A	Mandatory	Value date/currency code/amount		:32A : 090527USD10500.00
56	Optional	Intermediary	A or D	
57a	Optional	Account with Institution	A or D	:57A : DDDDUS33
58	Mandatory	Beneficiary institution	A B or D	:58A : BBBBGB22

End of Sequence A General Information

Mandatory Sequence B Underlying Customer Credit Transfer Details

50	Mandatory	Ordering customer	Options A, F or K	:50F : / 123564982101 1 / MR. BIG 2 / HIGH STREET 3 3 / BE / BRUSSELS
59	Mandatory	Beneficiary customer	No letter option or A	:59 : / 987654321 MR. SMALL LOW STREET 15 LONDON GB
70	Optional	Remittance information		:70 : / INV / 1234
33	Optional	Currency/Instructed Amount		:33B : USD10500.00
		End of message text/trailer		

MT 202 COV Example

Explanation	Format
Sender	AAAABEBB
Message Type	202
Receiver	CCCCUS33
Validation flag	:119:COV

← Validation Flag for COV messages

Explanation	Format
General Information	
Transaction reference number	:20 : 090525 / 124COV
Related reference ⁽¹⁾	:21 : 090525 / 123COV
Value date/currency code/amount	:32A : 090527USD10500.00
Account with Institution	:57A : DDDDUS33
Beneficiary institution	:58A : BBBBGB22
Underlying Customer Credit Transfer Details	
Ordering customer	:50F : / 123564982101 1 / MR. BIG 2 / HIGH STREET 3 3 / BE / BRUSSELS
Beneficiary customer	:59 : / 987654321 MR. SMALL LOW STREET 15 LONDON GB
Remittance information	:70 : / INV / 1234
Currency/Instructed Amount	:33B : USD10500.00
End of message text/trailer	

← Ordering Customer Details Required

← Beneficiary Customer Details Required

Additional Resources

- Basel Committee on Banking Supervision Due Diligence and Transparency regarding cover payment messages related to cross border wire transfers

<http://www.bis.org/publ/bcbs154.pdf>

- SWIFT User Handbook

http://www.swift.com/about_swift/press_room/swift_news_archive/home_page_stories_archive_2009/SWIFTlimitsStandardsMTRelease2009tominimisecustomerimpactinfinancialcrisis.page

- Wolfsberg Clearing House Message Payment Standards

http://www.wolfsberg-principles.com/pdf/WG-NYCH_Statement_on_Payment_Message_Standards_April-19-2007.pdf

- For further questions, please contact **Catherine Mwangi** on catherine.mwangi@citi.com

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