



SWIFT Response to the Banking
Committee on Banking Supervision
on the Consultative Document:

“Guidelines - Revised annex on
correspondent banking”

22 February 2017

SWIFT thanks the Banking Committee on Banking Supervision for the opportunity to provide comments on the Consultative Document 'Guidelines - Revised annex on correspondent banking'.

SWIFT is a member-owned, cooperative society headquartered in Belgium. SWIFT is organised under Belgian law and is owned and controlled by its shareholding Users, comprising over 3,000 financial institutions. We connect more than 11,000 connected firms, in more than 200 countries and territories. A fundamental tenet of SWIFT's governance is to continually reduce costs and eliminate risks and frictions from industry processes.

SWIFT provides banking, securities, and other regulated financial organisations, as well as corporates, with a comprehensive suite of messaging products and services. We support a range of financial functions, including payments, securities settlement, reporting, and treasury operations. SWIFT also has a proven track record of bringing the financial community together to work collaboratively, to shape market practice, define formal standards and debate issues of mutual interest.

If you wish to discuss any aspect of our response please do not hesitate to let us know.



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Question 1 (on Information from KYC utilities on respondent banks' overall customer base or types of customers): Would it be useful for this guidance to further detail the sort of information a correspondent bank could acquire from a KYC utility on the respondent's customer base? Do you agree that the information set out below could be useful and realistically obtained?

There is no requirement to perform CDD on a respondent bank's individual customers. However, correspondent banks may find it useful to gather information on respondent banks' profiles through KYC utilities. Useful information on respondent bank customer types could include: (i) a broad classification according to economic sectors such as the System of National Accounts classification, distinguishing between corporations (using their accounts to support their economic activity of producing goods or services or accumulating capital), households, government, non-profit institutions, and other factors such as the distinction between financial and non-financial corporations and the size of the corporation or of the corporate group to which the corporation belongs; (ii) the proportion of resident and non-resident customers and countries of the non-resident customers; and (iii) whether certain high-risk categories (such as PEPs) are over-represented in the customer base compared to the general population. To the extent improvements in the content of payment messages allow this, such as with the inclusion of ISO country codes and the LEI, some of this information can be obtained and updated through the analysis of the flow of messages of the respondent bank, as this will provide information on the customers using correspondent banking services.

Answer: SWIFT believes it make sense for the BCBS guidance to detail the sort of information a correspondent bank could expect to acquire from a KYC utility on its respondents' customer bases. We believe this will help to determine a standard for the minimum data set to be captured and provided by KYC utility providers.

In the correspondent banking business domain, the BCBS might consider the following information be collected and held by KYC Registries:

- (1) The type of products and services the respondent bank offers to which clients.
- (2) The proportional split of the respondent bank's customer base by client type – ie: individuals, corporates, banks, non-bank FIs, governments, etc (in percentage terms).
- (3) Whether the respondent bank provides services to specific customer types (such as non-account customers, shell banks, offshore customers, money service business, gambling companies, etc).
- (4) Whether any industry sector represents a significant proportion of the respondent bank's customer base.
- (5) The location in which the respondent bank is headquartered and has its operations (including branches, subsidiaries and representative offices, etc).
- (6) Where the respondent bank's customers are located.
- (7) Whether any country represents a significant proportion of the respondent bank's customer base or revenue.

The above list was formulated by SWIFT on the back of the recent consultations SWIFT has performed with its KYC User Group. These surveys were undertaken by SWIFT in order to best define how global correspondent banks' policies are evolving and their need for transparency is increasing and, how SWIFT should therefore extend the KYC Registry baseline. The results illustrate the industry's expectation that respondent banks need to provide greater transparency on their products and services and on the customers they provide these products and services to. We believe this information gathering exercise also provides a useful indication about banks' ability and or willingness to share such information through KYC utilities.

In addition, we believe that information on messaging traffic patterns would provide welcome transparency around a respondent bank's exposure to sanctioned or high-risk countries. As such additional information could be added covering:

- (8) The proportion of a respondent bank's total correspondent banking payments traffic that is exchanged with entities in sanctioned or high-risk countries.

We note that the CPMI has engaged with the Payments Market Practice Group (PMPG) to define best practice on the collection of information. Structured information has been introduced in relevant payment message standards (such as new format options for the ordering party and ultimate beneficiary) which both the respondent and correspondent bank may use to analyse the message flows. Further standardisation is possible and should be pursued. For example, a standardised categorisation could be developed for the data element 'industry sector' (see point (4) above), based on the System of National Accounts or the NACE / NAICS classification system.

Question 2 (on Assessment of a respondent bank's AML/CFT programme): Would it be useful for the Committee to elaborate further on how a correspondent bank should conduct the assessment of a respondent bank's AML/CFT policies and procedures, eg via the use of internal audit reports, or are paragraphs 21–2 sufficient in that respect?

Answer: SWIFT recommends that the BCBS be as prescriptive as possible, and should elaborate on its advice as to how correspondent banks should conduct their assessments of their respondent banks' AML/CFT policies and procedures. This will make it much clearer to banks which data they are required to provide to and collect from existing and potential counterparts and not only ease the assessment and information gathering process, but also allow KYC utilities to facilitate the process by capturing this information correctly and adding this information to their 'standard-baselines'.

In addition we believe that the BCBS could consider recommending that banks variously submit their AML questionnaires, information requirements and documented AML/CFT policies and procedures (if any) to KYC utilities. Banks could opt to expand on this baseline data set by providing supplementary information on their internal organisational, oversight and control structures. KYC utilities will help increase the level of consistency, enhance information sharing capabilities and provide greater efficiencies around the overall KYC/AML processes, leaving banks more time to allocate to qualitative assessments, as per the BCBS guidelines.

Question 3 (on Quality of payment messages): Considering the existing Committee publication, would it be useful to: (i) insert the content already included in paragraphs 37–40 of the 2009 publication in this Annex, or (ii) detail further the expectations with respect to quality of payment messages, and, if yes, do you have suggestions?

The paragraphs above are mainly based on the Committee publication *Due diligence and transparency regarding cover payment messages related to cross-border wire transfers*. This publication also sets out the role of supervisors in checking the banks' implementation of due diligence regarding payment messages (see paragraphs 37–40 of that publication, www.bis.org/publ/bcbs154.pdf). The Committee guidelines *Sound management of risks related to money laundering and financing of terrorism* to which the present Annex is

appended also develop the role of supervisors (see paragraphs 84–95). Both documents are relevant in the context of this Annex on correspondent banking.

Answer: Advances in standards, reference data and technology since 2009 have already enabled payment message quality to improve. Furthermore, the ongoing industry dialogue led by the Payments Market Practice Group (PMPG) encourages the further adoption of standards and reference data (such as the use of Legal Entity Identifier (LEI)) in payments messages.

As a result, we believe it would be useful to include paragraphs 37-40 of the 2009 publication in this Annex, as well as to provide detail on the BCBS' future expectations on payment message quality. Setting out such detailed expectations will, we believe, help to drive further adoption of better and structured data. This, in turn, will allow greater levels of automation and (better) payments screening, while also helping to reduce the number of so-called 'false positives'.

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