LYDDON CONSULTING SERVICES LIMITED

VIRTUAL ACCOUNTS

Background
This paper is about Virtual Accounts and how they are used by multinational corporates.

They were already common in the world of investment management, lawyers, indeed any entity that is holding client funds: they need one bank account themselves for operational expenses, and a client money account - and then they want a service that segregates the money in the client account into the amounts owned by each client.

That is all very legitimate and has been around for years. The main bank does the debiting and crediting on the single 'client money account', and then produces an emulation of that account where the balances of each individual client are shown.

Where it has spread into the world of multinational corporates is where the corporates have a Payment Factory or Shared Service Centre, and want only the Payment Factory or Shared Service Centre to have a "real" account with a bank in the outside world.

This spares the complex sweeping and pooling arrangements to move from a set of individual bank accounts held in various countries, currencies and legal entity names, to just one bank account balance per currency.

Each subsidiary of the group then gets its own Virtual Account, but the balance on that account is not an asset or liability at the bank.

Instead it is an asset or liability of the subsidiary towards the Payment Factory or Shared Service Centre.

All very plausible if all the subsidiaries are in one country and have the same country of incorporation: then the Virtual Account bank details follow the same convention as the details of the "real" account, and they are all identifiable to the same banking entity - but they don't. The operating needs involve local banking in the countries of incorporation of the subsidiaries, and that is where the fun starts: the subsidiaries want to look as if they have a local bank account with unique bank details and held with a local banking entity, but actually the account is a fiction.

Customer Service Proposition enabled by Virtual Accounts
Taking the prime example of Bank of America Merrill Lynch in Europe, which has a few of its own branches but many partner bank arrangements, Virtual Accounts is pivotal to their proposition:
- Only one set of Account Opening papers to be signed by the customer – BAML's
- Only one entity on the customer side needs to sign them: the Shared Service Centre
- Quick to set up: a month from start-to-finish, compared to 12 weeks at best for real accounts in various banks
- "Real" accounts are all at BAML: these are the accounts the customer reconciles and on which they get their statements and audit confirmation
- One place of relationship management and customer service – BAML Bromley

- No need for the SSC to pass AML/CFT compliance of local banks
- No need to produce any Account Opening papers on the Operating Companies
- No need to interact at all with any bank except BAML
- All statements can be supplied via file download on Edifact Bansta, ANSI, ISO20022 through a BAML-supplied eBanking channel
- All payment orders can be submitted through a BAML-supplied eBanking channel
- Bank account mandates – which only exist at BAML – can be operated via eBAM

How Single Euro Payments Area ("SEPA") supports a Shared Service Centre

SEPA enables a Shared Service Centre ("SSC") to openly have a "real" account and to make and receive payments for the operating companies ("OpCo's") through it.

This is enabled in the SEPA payment schemes, and also in other payment schemes where both ISO20022 XML is used and where the Ultimate Debtor/Ultimate Creditor fields are specified as being mandatory:

- For payments away by credit transfer, the debit party is the SSC and Ultimate Debtor is quoted as the OpCo
- For collections through the direct debit scheme, the credit party is the SSC and the Ultimate Creditor is the OpCo
- For payments through the direct debit scheme, the debit party is again the SSC and the Ultimate Debtor is the OpCo (although multinationals rarely act as the Debtor in the direct debit scheme)

Those three operations can be carried out reliably. What is more difficult is where an OpCo sends an invoice to its commercial customer and requests payment by credit transfer:

- It quotes its bank details on its invoice as the SSC's account
- It asks that it itself be quoted as Ultimate Creditor
- It relies on its counterparty to insert the Ultimate Creditor details in the SEPA Credit Transfer
- In doing that it relies on the counterparty's bank to supply the counterparty with an eBanking system that enables the Ultimate Creditor details to be inserted…
- .. and it relies on the counterparty's bank and all intermediary clearing systems to pass that information through, and then on its own bank to show it

The usage of the approach based on Ultimate Debtor/Ultimate Creditor stumbles on this simple problem of relying on commercial counterparties and their banks to accommodate the full details in their credit transfers, failing which the SSC will have credit entries on its bank statement that it will not be able to apply.

The OpCo's requirement is to be able to put simple bank details on their invoices and preferably just an IBAN. At most it would be numeric domestic bank details like UK details.

The benefit of the IBAN or numeric domestic bank details is that the identity of the Account Servicing Institution ("ASI") is opaque. Corporates also want account switching: that they can take the bank details to any bank they wish and without altering them. IBAN inhibits the ultimate application of that principle: the first two digits indicate a country.

Non-viability of this approach in non-SEPA clearings for the time being
The adoption of ISO20022 generally has stalled, and even in the SEPA Area (i.e. delay in EBA EURO1 and TARGET migration), and the Ultimate Debtor/Ultimate Creditor fields are not mandatory either at all or in a first release when ISO20022 is adopted: for example they were not in the launch version of SEPA Credit Transfer in 2008.

As regards domestic clearings and taking the UK as an example, no Ultimate Debtor/Ultimate Creditor fields exist in Standard18, the UK BACS format; SWIFT MT for CHAPS has fields that could be used but they are not being used in CHAPS at present, likewise ISO8583 for FPS.

The approach based on usage of fields for Ultimate Debtor/Ultimate Creditor is not possible currently in the UK in the way it is possible for SEPA payments (nor is it possible, as standard fare, for MT payments in Euro in the SEPA Area, nor for Member State currency domestic payments in many other non-Euro EU countries).

Further corporate requirements
Whilst there have been many regulations and directives to reduce the costs of cross-border payments, corporates still prefer not to have to ask their counterparties to make them. Multinationals usually trade with their counterparties out of a legal entity incorporated in the same country as the counterparty i.e. the OpCo's are resident entities, like their customers.

There are for sure business models where this is not the case, and where the trading counterparty is a non-resident towards its commercial customers, but the normal modus operandi is to have resident OpCo's.

Then the requirement is to have bank accounts that are:
- Established in the same country and currency
- Accessible through the local low-value clearing
- Enabling collections to be made resident-to-resident, in local currency, and without the money crossing a national border

Multinationals will also use the structure, with care, where their counterparty is a non-resident: their customers will still be paying to an account in local currency and in the same country.

The certainty that goes with having accounts where customers can pay you resident-to-resident, in local currency, and without the money crossing a national border, are:
- No Central Bank statistical reporting
- No cross-border payment fees (aka lifting fees, per mille fees, cartel fees) which can be as high as 0.15% flat with a high minimum like EUR25 (note for HMRC: this is one of the reasons why fees on remittances become so high as a percentage of face value)

These are major drivers and remain so even where there is no Central Bank statistical reporting any longer (that can always be reversed) and where measures like Payment Services Directive have reduced cross-border payment fees: the fear is that measures can go into reverse and then corporates do not want to be faced with a change project.

Virtual Accounts – meeting those requirements
Virtual Accounts are offered both by banks with their own networks of branches and subsidiaries (e.g. BNPP, ING, Deutsche) and by banks who supplement their own networks with partner banks (principally BAML).

The essence is that SSC maintains a "real" account with the bank at the bank's main location e.g. BAML London. The SSC's accounts will have numbering that is associated with the UK and with BAML. The bank's ledger only reflects the balances on the SSC's accounts.

The OpCo's get "virtual" accounts in every currency and country they need them. These accounts are numbered according to the conventions prevailing in the country of the OpCo's incorporation, and will be associated – however opaquely – with:
- The branch or subsidiary bank in that country of the main bank; or
- The partner bank in that country of the main bank.

Payments in and out of the "virtual" accounts go in and out in local currency, through local clearings and never cross-border.

They are debited and credited to a nostro account held by the main bank at its branch or subsidiary, or at the partner. That account is not "swept" to the main bank: three or four times a day every entry on the account is copied over into the accounting system at the main bank:
- The funds increase or reduce the balance on the SSC's account at the main bank;
- Each entry is then also reflected in the "virtual" account of the OpCo that is produced by the main bank: the "virtual" account at the main bank is a precise mirror or replication of the "virtual" account at the local bank.

The SSC then gets one set of statements for itself, on the "real" accounts, and a stream of statements for the OpCo's – one on each "virtual" account - with which it can then debit and credit their in-house books of accounts, ending up with the balances owed between the SSC and each OpCo. The statements that the SSC receives on each "virtual" account come from the main bank and are formatted in the same way as the statements on the "real" accounts, for ease of processing.

The SSC receives no statements from the local banks.

This is perfect:
- Easy reconciliation;
- Only one account balance per currency at the bank;
- Assets and liabilities between SSC and OpCo's are completely transparent;
- No local accounts to manage;
- Billing only comes from the main bank;
- Bank mandates only at the main bank;
- The main bank has access to all the debits and credits over all the "real" and "virtual" accounts;
- Single point of customer service.

Bank details and payment routing

Virtual Accounts can be directly addressable in euro in the SEPA Area because of IBAN. The first two letters of the IBAN show which country's conventions on IBAN formatting apply. Then the payment can be routed through SEPA clearings based on the subset of the subsequent numeric digits that indicate which bank is the ASI. Tables in clearing systems then act on these digits to ensure the payment reaches the ASI.

Outside the SEPA Area and/or for non-euro payments within the SEPA Area, there is a dependency on it being possible to issue unique bank details for the OpCo's which do not obviously identify the bank the account is supposed to be with. In the UK the sort code routes the payment and then the bank associated with that sort code credits the payment.

No sending bank or clearing system does or is able to execute an infallible check that the beneficiary account both exists and is open for the receipt of the credit transfer. There can be a check on the plausibility of an IBAN, but apart from that there are agreed routines for rejecting/returning payments where it turns out that the account either does not exist or else is not open to receive the payment.

How it looks to commercial counterparties of the OpCo's

The appearance given to the OpCo's commercial counterparties in each country is that a local bank account is maintained in the OpCo's name and identifiable – albeit with reference to routing tables – to a specific ASI in that country.

In the UK, of course, the identity of the ASI is discernible within the IBAN and by the BIC, but not from the sort code: for that a routing table in needed. As a result these structures avoid usage of BIC completely, and avoid usage of IBANs that display the ASI's identity.

So what's the problem?

The problem is in the degree of AML/CFT compliance work performed on the OpCo's by both the main bank and by the local banks identifiable as acting as ASIs for the OpCo's from what the OpCo's put on their invoices.

Please note again that the OpCo's only put on their invoices the unique local bank account details formatted to local conventions, which in many cases will be a numeric IBAN. There is no mention on their invoices that the account is "virtual", and there is no mention of the SSC or of the main bank.

It is taken as read that the Virtual Account IBANs/unique local bank details are formatted according to the rules of the country of incorporation of the Virtual Account holder, and can then be used in local payment traffic and without mentioning the SSC.

The existence of a "real" in-country account is thereby implied to other parties in the payment chain – and by extension is implied also to authorities over consumer protection, bank licencing and financial crime. Those other direct and indirect parties to the payment have (in BL's opinion) a right to assume that there is a Customer Due Diligence file on the Virtual Account holder, and held at the in-country bank that the IBAN/local bank details are identifiable to.

A file on the OpCo held at the main bank - i.e. at the SSC's bank – is not the same thing:
- The SSC's bank is in a different country
- The Virtual Account bank may not even be a branch of the SSC's bank. It could be:
    - A subsidiary and not necessarily a direct one of the main bank
    - An unrelated partner bank contracted by the main bank

Would there be a file on the OpCo at the main bank even? Why should there by when the OpCo has no asset or liability towards the main bank?

The prevailing practice appears to be that there is no Customer Due Diligence file on the OpCo, because it owns a Virtual Account.

AML/CFT processes within different banks' international networks
BL's experience is of course coloured substantially by IBOS where in principle one bank acts as Account Servicing Institution for clients introduced by a completely unrelated bank e.g. Santander Spain makes an introduction to Nordea Denmark.

IBOS banks like UniCredit have installed almost identical in-house procedures to IBOS ones for handling referrals between their own set of banks. UniCredit S.p.A., a bank, is the parent of Hypovereinsbank Germany, that has about 10 overseas branches. UniCredit S.p.A. is also the parent of BankAustria, and BankAustria is the parent of the other 8 or 9 banks in Central & Eastern Europe. The shareholding relationship is then quite direct between the parent – which is itself a bank – and the other banking entities.

Santander does not have parallel in-house procedures: it uses IBOS procedures openly for its referrals between Poland, Spain, Portugal, Brazil, Mexico and Chile = the main flows they have. This is in part because Spain does not directly own these units: there is a complex arrangement of overseas holding companies that are not themselves banks underneath Santander S.A., which is the bank in Spain and the ultimate group parent. Poland, Portugal, Brazil, Mexico, Chile and several others are owned through the overseas holding companies, are major domestic banks in their own right, and frequently have either minority interest institutional shareholders or else have a small portion of their shares quoted on the local stock exchange.

Citicorp is different again, because Citicorp is not itself bank, but it owns Citibank NA domestically and therefore in turn owns Citibank NA's overseas branches, and Citicorp owns a Delaware holding company (a non-bank) through which it owns the overseas banking subsidiaries.

In all of these examples the group banking entities are compelled to regard one another as second-party banks i.e. not quite third-party banks but not branches of the same bank. That for sure increases the delta in the amount of AML/CFT that needs to be done locally, compared to the network structure that is composed solely of overseas branches.

In the ideal situation a Global Relationship Manager could carry out the AML/CFT work at one banking location and then all other units could place reliance on it. However, this could only ever work in a branch structure, and not in one composed of banking subsidiaries, still less in one composed of partner banks.

The structure of the ownership of banking subsidiaries is also a determinant of how much AML/CFT work can be carried out once, at the centre, on behalf of all the group's banking entities, or autonomously and in full, and repetitively, at each banking entity.

Corporate customers want the former, but bank structures and bank regulation have moved towards the latter.

Virtual Accounts is a service that aims to eliminate a whole level of AML/CFT work on the bank side, on the premise that there is no "local" side at all and that only the "central" side exists. If that premise is accepted, there is complete efficiency, and no need to consider the delta of how much more AML/CFT work is mandated by the banking structure within which accounts are to be opened.

The amount of AML/CFT that needs to be discharged locally can indeed go up to 100%, as in an IBOS structure, and then the efficiencies come about only in a few areas:
1. The Global RM can do the Ultimate Beneficial Ownership work, the identification work on people at the parent who are directors or signatories of the subsidiaries, and also the work on any Global PEPs involved, and send the work to the local unit for the local unit to do its examination of the work (i.e. the local unit still has to do the work locally, but based on information supplied once by the customer to the Global RM, and then re-used around the network – but some of it only has useful life of three months after which it becomes stale)
2. The Global RM can do the group-level side of the KYB
3. If the parent company wants foreign accounts, or indeed any group company wants them that already has accounts in the country where the Global RM sits, the Global RM can do the KYC/KYB for those accounts, which are non-resident accounts when looked at the other way down the telescope, but may well have to ask the customer for fresh documents if the most recent KYC/KYB refresh was more than three months ago
4. The Global RM can get originals of any papers that the local units need for their KYC, make a copy and stamp it as a true copy of the original – saving on translation, notarisation and apostilling

The experience in IBOS was to always ask for a completely new, fresh and specific stack of documents each time a legal entity wanted another account, because that was easier for the customer than when the bank had to ferret in its files to see what it had, work out what was relevant and recent, then ask the customer for the delta… just much easier to send a list of what was needed for that bank in that country for a non-resident account and get the customer to produce all of it.

Then for resident referrals it was easier, in 99% of the cases where the referral arose overseas, to get the resident to visit the bank locally and sort it all out, rather than try to get Italian, UK or Spanish documents collected at the parent and sent back to Italy, UK and Spain.

It was all a big effort and not what the company wanted, but justifiable if the customer wanted a local banking connection so it could quote that on its invoices, even if it didn't need wider local services (which most IBOS clients did as well, the reason they entertained an IBOS solution and not Virtual Accounts).

The typical client for Virtual Accounts is one that has fully centralised the Finance function into an SSC structure, does not have any local staff who could visit a bank and go through AML/CFT, does not want a local 'wet' signature mandate to exist at all, and can limit its local banking needs to inward/outward electronic credit transfers, and paying via direct debit.

IBOS view on the definition and status of an ASI
The overarching view was that, if any bank issues a customer with unique banking details (whether as an IBAN or sort code plus account number), that bank is identifying itself as an Account Servicing Institution for that customer in that country. The bank is allowing third-parties to believe this to be the case, because it knows that the customer will put those banking details on their invoices (accompanied by no other banking details), which also state that customer's name (and no name of an SSC or Payment Factory).

If the bank is identifying itself (or allowing itself to be identified) as an Account Servicing Institution for that customer in that country, it must hold - and in that country - a full AML/CFT file demonstrating upfront and ongoing Customer Due Diligence covering KYC, KYB, UBO and PEP.

That was the IBOS view anyway, strongly coloured by BL's own view, but it is not shared in the banks that offer the Virtual Account service now because, if they did share that view, their banks could not offer the Customer Service Proposition that they are offering under the heading of Virtual Accounts.

What is the key representation being made?
That each OpCo has a local bank account.

The key determinant of the representations being made is what the customers put on their invoices, and this is taken to be local banking details and nothing else. A putative relationship between BAML as main bank and BankAustria as BAML's partner for Central and Eastern Europe and Svenska Handelsbanken doing the same for the Nordics would lead to the scenario set out below.

A putative Scott Paper (Austria) GmbH, with its virtual account identifiable to BankAustria, will put on its invoices its own name and the virtual account details, which are unique to it, and aren't the details of BAML's nostro at that same bank.

The invoice will give no indication of the existence of:
- BAML, either in London or Austria
- The putative Scott Paper Payments (Europe) B.V., the SSC that has the real account and at BAML London
- The bank details of the real account, either the UK sort code + account number version or the IBAN only or IBAN+BIC versions

This achieves the desired objectives of the scheme in countries where domestic payment can be transacted based on:
- BBAN-based bank details that are all numeric;
- IBAN-only where the IBAN layout for that country, after the initial two letters, consists entirely of numeric characters i.e. this applies to anywhere in the Eurozone.

The identity of the IBAN's issuing bank can then be made opaque to the counterparties of Scott Paper. It is opaque but not unobtainable: they would need a look-up table, and it would be completely obvious from that look-up table who the Virtual Account partner was.

The UK is, I believe, the only country where the alpha-characters of the BIC are also visible in the IBAN, but then the domestic bank details are all numeric.

So Scott Paper subsidiaries could be issued with IBANs on their Virtual Accounts like:

Country	Example IBAN
Denmark	DK50 0040 0440 1162 43
Finland	FI21 1234 5600 0007 85
Austria	AT61 1904 3002 3457 3201
Czech Republic	CZ65 0800 0000 1920 0014 5399
Slovakia	SK31 1200 0000 1987 4263 7541
Hungary	HU42 1177 3016 1111 1018 0000 0000

It becomes more difficult if BIC has to be used as well as IBAN because the last thing that Scott Paper would want to be showing on their invoices is the following:

Country	BIC
Denmark	HANDDKKK
Finland	HANDFIHH
Austria	BKAUATWW
Czech Republic	BACXCCZPP
Slovakia	UNCRSKBX
Hungary	BACXHUHB

Then it becomes obvious that it is not BAML that is their ASI but either Svenska Handelsbanken, or BankAustria.

So the naming of the Virtual Account must contain the respective subsidiary, even if the naming is complex in the partner's books, such as "BAML London ref Scott Paper Payments (Europe) BV ref Scott Paper (Austria) GmbH".

Then BAML's ledger would show "BankAustria Vienna ref Scott Paper Payments (Europe) BV ref Scott Paper (Austria) GmbH" and a contra of "Scott Paper Payments (Europe) BV ref Scott Paper (Austria) GmbH".

Whatever the accounting is inside the two banks, Scott Paper (Austria) GmbH puts only its name on its invoice, together which its numeric Virtual Account details, IBAN only or BBAN+domestic routing code and never IBAN+BIC. The details will be uniquely issued to the respective OpCo and be identifiable to that bank, even if a consumer or business customer will not know this straightaway but have to refer to a look-up table to identify which bank is being represented by the respective OpCo to be its ASI.

Where could this go wrong?
1. There would be no 'wet' signature mandate on the OpCo's anywhere, so directors, principals and signatories of the OpCo's would not be listed out and no identification checks would be carried out on them;
2. PEPs could be involved at the OpCo level (either global PEPS or national level ones) who are not involved at the SSC or parent level. German OpCo's in particular have a tendency to take prominent local individuals onto their boards. Such PEPs would not be listed out, or have identification checks made on them;
3. There could be minority interests in OpCo's that are not identified;
4. Major customers and major suppliers of each OpCo would not be identified;
5. No KYB would be performed on the OpCo when viewed in isolation from the group;
6. No financial information would be obtained on the OpCo individually.

The AML/CFT checks required by legislation would not be carried out: a process and bureaucratic issue, which does not mean that there is not then a major legal or financial problem.

PEPs, directors, principals, signatories might then actually have criminal convictions, have been bankrupt, or be currently involved in money laundering or in the financing of terrorism.

Likewise customers, suppliers and third-party minority owners – or individuals associated with them – could have in the past been or indeed could currently be involved in money laundering or in the financing of terrorism, or otherwise have negative information against them.

There could also be breaches of company law. The collections made by the OpCo into its "virtual" account, which then is actually a liability of the bank towards the SSC, would cease to be an asset of the OpCo and would be unavailable to a trustee-in-bankruptcy of the OpCo. If staff and local creditors of OpCo can then not be paid out, the trustee-in-bankruptcy may be able to prosecute the local bank for "capital stripping": participating in a scheme that moved the OpCo's money across a national border to the detriment of the ability of the OpCo to meet its local obligations.

The local bank has taken on the role of the ASI of the respective OpCo in the eyes of third-parties in the outside world, but, if it has not done complete AML/CFT as if this were a "real" account, it has a legal exposure in BL's view.

Even in a basic situation where the OpCo has supplied defective goods and their customer is unable to get redress by direct communication with the OpCo, the customer could go to legal or consumer protection authorities in their own country. It would not be inconceivable that those authorities would ask questions of the ASI that it would only be able to answer if it had an up-to-date CDD file and a relationship manager.

What happens then to the ASI? Is it an acceptable answer to say that they have an indemnity from BAML? Would the indemnity fully cover the possible penalties?

Does BAML have an exposure in front of its own regulators as well? Its position would appear to be more secure than that of its partner banks, unless it has sold the service on to downstream correspondent banks, who introduce their clients to BAML who on on-introduce them to their Virtual Account partners.

Were BAML to be doing that as well, it would heighten the exposure of the Virtual Account partners because they would be presenting themselves as ASI for customers on the assumed basis that these were customers of BAML upon whom BAML had done complete AML/CFT (although it must have crossed their minds that BAML only does complete AML/CFT on the holder of the "real" account anyway and never on any of the holders of the accounts that BAML puts up to them for "virtual" accounts).

Should it transpire that BAML had not done complete AML/CFT on any part of the customer:
- Because it was a customer of a downstream correspondent and
- Because BAML had accepted an indemnity from that downstream correspondent which mirrors the indemnity it has passed on to the Virtual Account partner…

..then the Virtual Account partner might find itself in severe difficulties to explain themselves to their local supervisors.

As it is and even without this downstream element, the Virtual Account partners will surely find it difficult to explain their position to their local supervisors if, for example, the account holder has defrauded local counterparties, whose money was paid in using the invoice details provided… and then there is no AML/CFT file.

Conclusion
Virtual Accounts perfectly meets the needs of major multinationals that have fully centralised their Finance function into an SSC.

However, and even in SEPA, commercial reality still requires the existence of local accounts.

The holding of such local accounts within any bank's network (of branches, subsidiaries or partners, or a mixture of all three) submits them to the ever increasing burden of AML/CFT compliance as a generality, and to the decrease in the efficiency that can be applied at the banking location charged with Global Relationship management:
- Because banking regulation will always impact an overseas <u>branch</u> of the bank at two levels:
  1. The regulations imposed on the whole bank by the parent-level supervisors;
  2. Rules and guidelines imposed by local supervisors and applying just to that one branch;
- Because global banks are firstly following a trend towards converting overseas branches to subsidiaries, where then the local rules take precedence over the parent-level ones;
- Because secondly a bank that goes towards owning foreign subsidiaries will structure their shareholdings to meet varying criteria that will result in the subsidiary having a close or distant relationship to the banking entity in which the Global Relationship Management for a particular customer will be carried out, necessitating inter-unit processes to be designed that assume as their baseline that the units are not related in any meaningful way;
- Because thirdly the pace of expansion of global banks has stalled, they are even exiting some markets and switching to the usage of partners.

These trends increase the workload associated with holding distributed, "real" accounts, and equally-and-oppositely increase the attraction of Virtual Accounts, an offering that depends upon the view that AML/CFT compliance only has to be performed on the SSC and at the banking location of the main bank where the SSC's "real" accounts are held.

Were the view to be that AML/CFT compliance has also to be carried out on the OpCo's at every location where "virtual" accounts exist, then the advantages of Virtual Accounts sharply reduce.

The view on AML/CFT that enables Virtual Accounts appears to BL to be highly aggressive, and depends not on the opinion of the main bank because they will not be in the front line if and when things go wrong.

The view – and so the service – depends on the opinion of the partner banks (be they branches, subsidiaries or third-party partners) of the main bank, namely that they can issue unique bank details without being classed as an ASI for AML/CFT purposes.

These partner banks associate the unique number with the OpCo even in their own books, by naming a putative account "BAML London ref Scott Paper Payments (Europe) BV ref Scott Paper (Austria) GmbH". The fact that Scott Paper (Austria) GmbH is written into the account name and that the bank knows that only this name and the unique number associated with it will be put on the OpCo's invoices are the proof that the bank is acting as ASI for the OpCo, in BL's opinion.

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