LYDDON CONSULTING SERVICES LIMITED

WOLFSBERG GROUP 2016 GUIDANCE ON SWIFT "NON-CUSTOMER" RMAs

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Preface

This paper calls for the withdrawal of the Wolfsberg Group guidance of 2016 on SWIFT Relationship Management Application ("RMA"). The main import of that guidance was to cast aspersions on the situation where banks maintain RMA with one another but are not one another's cash correspondent bank, a situation known as "non-customer" RMA.

RMA is required to be in place between two BIC codes of SWIFT members ("BIC" meaning Business Identifier Code and in effect being a mailbox on the SWIFT network) as a security measure to enable many SWIFT message types to be exchanged between that pair of BICs. It replaced the SWIFT Bilateral Key Exchange ("BKE") as the way of securing SWIFT traffic, and this in turn replaced sending telexes secured via test keys.

The de-commissioning of "non-customer" RMA has had serious consequences in terms of reduction of choice and supply of international banking services.

De-commissioning RMA has been a prime implement of de-risking, and the Wolfsberg guidance has incorrectly been taken as proving that there are AML/CFT risks associated with "non-customer" RMA. The risks are primarily operational, can be avoided by normal good administration of the RMA process, and can only lead to AML/CFT risks in institutions with weak internal AML/CFT regimes.

Furthermore, Wolfsberg's definitions and use cases for "non-customer" RMA are flawed to the extent that they undermine the guidance, even had there been substantial risks to be mitigated.

The guidance should be withdrawn. It has caused more damage than the materialisation of any of the risks it was meant to mitigate.

About the author

Bob Lyddon is an experienced management consultant both privately and with PwC in the fields of international banking, payments and cash management. Between 2003 and 2017 he was engaged as General Secretary of the IBOS international banking club. With PwC between 1997 and 2000 Bob managed several programmes at the time of the initial introduction of the Euro, and while at BankBoston between 1994 and 1997 Bob designed and brought to market the Connector international banking club. Bob's earlier career was spent at Chemical Bank/Manufacturers Hanover and Lloyds Bank International in international capital markets, big-ticket export finance, and aircraft finance.

Bob has written a series of online courses on Cash Management, Trade Finance and Corporate Treasury, as well as delivering such courses in person. Bob has acted an expert witness in connection with cross-border payments, and is a retained consultant to trade bodies in this same field.

Bob Lyddon holds a First Class degree in Modern Languages from the University of Cambridge.

Wolfsberg Guidance on SWIFT RMA
The document which this paper calls upon to be withdrawn is the one entitled "SWIFT Relationship Management Application (RMA) Due Diligence 2016" and can be downloaded from this webpage: https://www.wolfsberg-principles.com/publications/wolfsberg-standards

The Wolfsberg guidance contains all necessary definitions of what RMAs are and the SWIFT messages that can be exchanged without the sender and receiver having RMA in place between them, so these definitions and lists are not repeated here.

Introduction
This document is a request to the Wolfsberg Group that it withdraw its above guidance:

- Wolfsberg's self-awarded remit is Anti-Money Laundering, and the guidance fails to make the case that the way in which banks handle RMA gives rise to AML risks. Indeed the paper itself states that the risks emanating from handling RMA are primarily operational;
- Wolfsberg should therefore have recused itself from issuing any guidance on the matter;
- The guidance has been taken as advising against the maintenance of "non-customer" RMA, even where RMAs are well managed and the institutions have an effective AML/CFT regime;
- The definitions and use cases quoted in the guidance for "non-customer" RMA are, flawed, and this invalidates the guidance, even were there meaningful risks;
- The use cases do not include the one where "non-customer" RMA was most used and was of most value: MT103 sent by the Cover method;
- Wolfsberg's guidance has led to a decline in the ability of banks to operate normal international payment and trade operations with many other SWIFT members;
- SWIFT members – lacking RMA with which to exchange "value messages" directly - access one another over SWIFT through the medium of their correspondents, adding inefficiency, time and cost, and possibly precluding the transaction taking place at all or driving it off SWIFT and into non-transparent networks;
- The outcome of the guidance has arguably been more detrimental to the marketplace than the materialisation of the risks the guidance was meant to eliminate.

Wolfsberg Group and its combined market share
Only Wolfsberg itself and its members will know whether their combined market share in Correspondent Banking is more or less than 25%, either in aggregate across all that industry's principal domains, and/or in the domains themselves such as international payments, securities custody, and international trade services (Letter of Credit, Documentary Collection etc.).

One could further break the domains down into markets such as US$ cross-border payments, US$ Trade Reimbursements, and many more, and measure market share in each of them.

What is certain is that all 13 members of Wolfsberg Group occupy a sufficiently important status in the world of international banking to be classified as Global Systemically Important Banks ("GSIB").

Furthermore, the Wolfsberg membership includes every single bank in the two highest categories of GSIB that are populated at all in the Financial Stability Board's listing of November 2017, noting that there were no banks in Level 5.

The November 2017 listing contained 30 banks, of which 13 are in Wolfsberg Group and 17 are not:

GSIB level	Wolfsberg Members	# out of	Non-Wolfsberg banks in the same GSIB level
5	--	0 of 0	--
4	JPMorgan	1 of 1	--
3	Bank of America Citigroup Deutsche HSBC	4 of 4	--
2	Barclays Mitsubishi UFJ Goldman Sachs	3 of 8	Bank of China BNP Paribas China Construction Bank ICBC Wells Fargo
1	Santander Credit Suisse Societe Generale Standard Chartered UBS	5 of 17	Agricultural Bank of China BNY Mellon Credit Agricole ING Mizuho Morgan Stanley Nordea Royal Bank of Canada Royal Bank of Scotland State Street Sumitomo Unicredit

Wolfsberg members include all but two of the main players in International Corporate Cash Management where it is offered through their own network of subsidiaries and foreign branches (as opposed to through partner banks), BNP Paribas and Unicredit being the other two.

The GSIBs who have a comparable profile to Wolfsberg members but who are non-members are:

Bank	GSIFI level	Comments
BNP Paribas	2	EMEA region player in international corporate cash management rather than global, and an important bank in Global Custody
Wells Fargo	2	Large correspondent bank payment volumes, in no small part due to the legacy Wachovia Bank
BNY Mellon	1	Based on importance in Global Custody; not a player in international corporate cash management
ING Bank	1	EMEA region player in international corporate cash management rather than global
Nordea	1	Nordics region player in international corporate cash management rather than global; prime correspondent for NOK, DKK and SEK for non-Nordic banks
RBS	1	Status based on residual global network acquired with ABN-Amro, rather than on long-term profile
State Street	1	Based on importance in Global Custody; not a player in international corporate cash management
Unicredit	1	Italy, Germany and Central&Eastern Europe region player in international corporate cash management

What “non-customer” RMA is and its significance in “de-risking”
“Non-customer” RMA is where two SWIFT members have exchanged RMA regarding one BIC on each side but neither is acting as Account Servicing Institution for the other behind either of the BICs. This situation is taken to mean the same as neither SWIFT member acting as a correspondent bank for the other at those BICs, although they may do at other BICs.

Wolfsberg’s negative guidance regarding “non-customer” RMA needs to be seen in the context of the wider “de-risking” of international banking.

At the same time as banks are reducing the number of RMA exchanges they have with banks where no Account Servicing Institution relationship is involved, banks have also been reducing the number of correspondents that they either use themselves or that they act for. These trends bring in their wake:

- A reduction in the number of “customer” RMAs any bank has;
- A switch of some former “customer” RMAs to “non-customer” RMAs;
- A reduction in the number of “non-customer” RMAs any bank has.

In other words, SWIFT members can communicate with fewer other SWIFT members directly, other than for the exchange of messages in the 3nn, 6nn and 9nn series where RMA is not required.

However, the total number of SWIFT messages to complete a single payment rises, because they are sent via the Serial method and not via the Cover method, and have to travel through several intermediaries, each one sending a SWIFT message on to the next one in the chain.

Regulators have identified these trends with the word “de-risking” and there have been several studies on Correspondent Banking and on Remittances from the Bank for International Settlements, the Financial Stability Board, the World Bank and the IFC on the subject.

Interpretation by SWIFT, regulatory bodies and banks of the Wolfsberg guidance
The Wolfsberg guidance has had its effect in determining market practice, for example in the SWIFT Customer Security Programme. Slide 16 of the deck created by SWIFT to market its Customer Security Programme during 2017 contains the representations that “Poor management of RMAs creates potential security risks” and “Wolfsberg guidance means banks are under greater regulatory pressure to control RMAs”.

It is not directly Wolfsberg’s fault that others have used wording that infers Wolfsberg’s guidance has regulatory status, or that such misinterpretations have been promulgated. Nor, though, has Wolfsberg taken clear steps to correct errors in the interpretation of its own status or of its outputs.

That Wolfsberg’s outputs enjoy a status on a par with those of organisations like FATF is undeniable, and when that goes unchallenged it becomes accepted wisdom. This status is visible in the outputs of the UK’s Joint Money Laundering Steering Group.

JMLSG’s general legitimisation of Wolfsberg

JMLSG’s reissuance of its outputs in December 2017 has several mentions of Wolfsberg.

In Part I in para 1.16 on p18 Wolfsberg is one of only two organisations mentioned as “international groupings, official or informal, [which] publish material that may be useful as context and background in informing firms’ approaches to AML/TF”. In para 5.1.15 on p73 Wolfsberg is quoted as a source of material on good practice alongside FATF, IOSCO, and the BIS.

Part II Sectoral Guidance para 15.40 on p162 JMLSG notes that “firms may also find some useful information in the private sector Wolfsburg Group guidance - Trade Finance Principles 2017”.

Part III Specialist Guidance 2017 version mentions Wolfsberg twice. Note 3 on p15 establishes Wolfsberg as an authority on Cover payments. Wolfsberg is quoted as a “source of useful information” on p71, the only organisation mentioned that is neither a government nor inter-government organisation.

JMLSG has thus legitimised Wolfsberg on a general level as a reliable source of guidance on AML/CFT issues and has placed it on a par with genuinely official organisations. It is not surprising that other parties cease to make a distinction and treat Wolfsberg’s guidance as if it was from a regulator.

Substance of JMLSG guidance on RMA

JMLSG’s scope is AML/CFT risk only. By addressing RMA at all, it legitimises that RMA is an AML/CFT risk issue in the first place: Wolfsberg does not establish this as a fact.

Secondly JMLSG’s guidance overlooks three vital qualifications that Wolfsberg’s makes in its statement that “RMA arrangements, if poorly controlled, may, however, allow financial services firms with inadequate Anti Money Laundering (AML) systems and controls, and customers of those firms, direct access to international banking systems”:

- Risk – of any type – only exists if the RMAs that a bank has are poorly administered;
- For any AML/CFT risk to derive from that, the bank must also have an inadequate AML regime;
- Even then, RMA does not definitely create access to the international banking system for undesirable parties.

The JMLSG guidance on RMA is more restrictive than the Wolfsberg guidance since it applies equally to where RMAs are well administered and where they are not, and to where an adequate AML regime is in place and where it is not. There is no mention of Wolfsberg’s disclaimer that the risks around RMA are primarily operational.

JMLSG allows some leeway where SWIFT RMA plus is used - the version of RMA where a party selects what traffic to receive from another party on a message type by message type basis and where there is no correspondent account behind it.

Part II Sectoral Guidance para 16.16 bullet point 3 on p186 states that a relationship may be of lower risk if is limited to SWIFT RMA plus. By implication if the relationship is based on normal RMA, JMLSG is accepting the Wolfsberg line that there is AML/CFT risk involved, and that the situation cannot by definition be low risk.

Para 16.20 on p187 states that parties may “decide to undertake the minimum level of due diligence set out in Regulation 28 for limited correspondent relationships, such as those limited to a SWIFT RMA plus capability”. A relationship consisting only of RMA plus is firstly not a correspondent relationship at all: there is no cash account behind it. That important point aside, once again the implication is that relationships based on normal RMA cannot be low risk.

The leading message on RMA, though, is in para 16.28 on p189 bullet point 7: “**SWIFT (RMA) relationships.** Due diligence should take into account the message types being made available to the respondent bank. Message types Category 1 and Category 2 bring heightened risks and, therefore, enhanced due diligence must be considered in these circumstances”.

There is no discussion of what the heightened risks are. This is an acceptance, wholesale, of the negativity of the Wolfsberg guidance without further enquiry.

Ironically there is a whole section in Part III Specialist Guidance para 1.32-1.39 p14 about Cover payments, without there being any mention that the usage of this method is dependent upon “non-customer” RMA and that JMLSG’s guidance in Part II on RMA will hinder Cover payments.

Reliance on Wolfsberg

Wolfsberg is thus accepted by real regulators as a source of reliable and accurate advice, of a level of authenticity on a par with FATF, the BIS and so on.

JMLSG has not reproduced and may not itself have examined the basis of Wolfsberg’s guidance on RMA. It has not reproduced Wolfsberg’s qualifications and disclaimers.

In the case of “non-customer” RMA the Wolfsberg guidance has been taken as accepted wisdom, applying to all RMA, however well or badly a bank administers them, and however good or bad the AML/CFT regime is in the bank generally. The conclusion that has been drawn from the Wolfsberg guidance is that “non-customer” RMA is a source of Money Laundering risk.

The result of the Wolfsberg guidance and its underlining by JMLSG has been an ongoing programme of review in banks – with a view to reduction – in “non-customer” RMAs: the recommendation to banks to institute such a programme is reinforced in the SWIFT Customer Security Programme documentation.

The counter-arguments in this paper

Against this background and indeed into the teeth of these headwinds, the counter-arguments are set out in this paper so as:

1. To draw out what the Wolfsberg guidance actually is on "non-customer" RMA;
2. To demonstrate the flaws in the basis upon which the Wolfsberg guidance was drawn up, both in the way it distinguishes definitionally between "customer" and "non-customer" RMAs and in the use cases for where "non-customer" RMAs supposedly come into play;
3. To focus attention on the three use cases where "non-customer" RMA is most prevalent and also most important for the end-users of international banking services:
    a. Customer payments made by the Cover method;
    b. International corporate cash mobilisation by MT101, where the Executing Bank is unrelated to the Forwarding Bank and where there is no "strategic partnership" or shared membership of a Banking Club connecting them – and then the dependency upon Cover payments for a satisfactory outcome to the operation;
    c. Trade finance messages where there is not a direct nostro relationship;
4. To request that the Wolfsberg guidance should be withdrawn, particularly in the light of the completion of the SWIFT Customer Security Programme, after which all SWIFT members should have adequate management of RMA – or else the SWIFT Customer Security Programme itself has been inadequately scoped.

What the Wolfsberg guidance on "non-customer RMAs" actually says

The Wolfsberg guidance limits itself to saying (in the bottom paragraph on page 1) that:

1. having "non-customer" RMAs gives rise predominantly to an operational risk (i.e. on unwanted traffic);
2. that poorly controlled "non-customer" RMAs <u>may</u> (author's underlining) give rise to a risk of Money Laundering in institutions with inadequate AML systems and controls.

In other words (i) it is not a certainty that the risk will materialise even in institutions with **in**adequate AML systems and controls; and (ii) it would not happen in institutions with adequate AML systems and controls.

The blanket phrase used in the SWIFT Customer Security Programme slideware that "Poor management of RMAs creates potential security risks" is a good example of the 'Chinese whispers' process through which the guidance has been propagated and both been made wider, more certain and more negative than in its original form.

The market has come to equate Wolfsberg's guidance with there being an unquestionable AML risk deriving from "non-customer" RMAs, but the guidance does not say this.

Furthermore the description of when "non-customer" RMAs come to be in place between two banks, as well as the description of the operations they pertain to, are both flawed to a degree that invalidates the guidance deriving from them.

Problems with the Wolfsberg definition of a “non-customer” RMA
The definition of “non-customer” RMA in the Wolfsberg paper is loose. It reads like a series of generally-held assumptions rather than what is needed: an exact definition couched in SWIFT terminology.

The impression is made that some of these assumptions may be true within the bank where the author works – whoever that author is - but they are not true across the piece.

The Wolfsberg guidance definition of a “non-customer” RMA is as follows:
“A non-customer RMA is generally created when there is a request that the bank sends or receives SWIFT messages to/from a third party (i.e. the non-customer) in support of a customer’s business and where the bank has no other relationship with that third party. This can include both transactional and non-transactional messages. Such arrangements are sometimes referred to as “network banks,” which facilitate the continuing ability to meet customer global trading expectations and requirements. Network banks are non-customer banks and have no accounts, facilities or dedicated Relationship Manager. They are sponsored by a global line of business and interactions are limited to document exchanges and restricted SWIFT RMA message interactions. The settlement of any transaction is decoupled from the document exchange and always made via a customer bank”.

The elements of the definition that are questionable are as follows:

Statements	Issues
“A non-customer RMA is generally created”	• “Generally” is not really good enough for a document of this type, one that has a major impact on global market practice
“the bank sends or receives SWIFT messages to/from a third party (i.e. the non-customer) in support of a customer’s business”	• It should surely be made clear that the “third party” referred to is also a SWIFT member and is indeed another financial institution • The term “third party” makes it sound like that party is by nature in a less propitious category than “the bank” when the two are on a par: they are both SWIFT members, they just happen not to be correspondents behind the respective BICs • The usage of the terms “non-customer” and “customer” in this sentence is confusing because they are not the inverse of one another in this context • The “customer” is the end user of the service; the “non-customer” is a bank but is referred to as a “non-customer” because of the status of its RMA with “the bank”

Statements	Issues
"where the bank has no other relationship with that third party"	• This should make reference to specific BICs, behind which there is no Account Servicing Institution ("ASI") relationship • It should make clear that there could be ASI relationships and "non-customer" relationships between different pairings of BICs belonging to the same two banking groups • An RMA between two BICs in the Bank of America Group and in the Santander Group could be "non-customer" if there was no cash account held behind either BIC, whilst these two banking groups will be holding many mutual nostros under other pairings of BICs, and have much other business, so there will be many "customer" RMAs between them as well
"This can include both transactional and non-transactional messages"	• It would be better if reference were made to "value messages" that require RMA in the first place, and other messages that do not • All SWIFT messages refer to transactions in one way or another so this phraseology is unhelpful
"Such arrangements are sometimes referred to as "network banks""	• This terminology is not mainstream • The primary meaning of "network banks" is the Wolfsberg members themselves – banks that have a wide network of their own foreign branches and subsidiaries through which to service international corporate customers • This servicing method differs from the one using "partner banks" – banks with whom a given lead bank has entered into a standing contract to render services to mutual customers. The lead bank would normally refer to these as "partner banks". They could be fellow members of a Banking Club like IBOS or banks with whom a bilateral partnership agreement has been signed: the scope of both is wider than MT101 alone • Banks with whom an MT101 Bilateral Agreement has been signed in order to accommodate one particular customer are rarely termed "partner banks" and are not "network banks" • The secondary meaning of "network banks" is in Global Custody and it means the sub-custodians selected by a global custodian
"Network banks are non-customer banks and have no accounts, facilities or dedicated Relationship Manager"	• This is quite wrong for the case where a "network bank" is acting as sub-custodian to a global custodian • The global custodian would have a Network Management function and run the relationship with this "network bank" out of it, and it would involve accounts held at the sub-custodian and facilities for the risks being taken on the sub-custodian • In international corporate cash management and if a second bank were being presented by a lead bank to its customers as its "partner bank", the lead bank would have a Network Management function and run the dealings with this "partner bank" out of it. The more sophisticated the service, the more likely it is that the lead bank would maintain all of accounts, facilities and a dedicated Relationship Manager for the "partner bank"

Wolfsberg’s definition of “non-customer” RMA situations is flawed. The terminology does not match mainstream terminology.

Its use cases for “non-customer” RMA are badly flawed as well.

Use cases for “non-customer” RMAs quoted in the Wolfsberg guidance
While the five use cases cited by Wolfsberg are caveated with phrases like “are not limited to” and “definition of a customer may vary”, these cases represent the foundation of Wolfsberg’s understanding of the business situations where “non-customer” RMA is used:

1. Cash management: receipt of balance and transaction information on a corporate customer’s account at another bank, so that the corporate customer can view activity through its bank’s reporting tool
2. Cash management: relaying payment instructions from a corporate customer to their third party bank
3. Custody: provision of information from a sub custodian bank to the global custodian at the request of the client
4. Trade Finance (e.g., letters of credit): exchange of messages with banks that do not otherwise have direct payment relationships
5. Exchange of messages with payments and securities markets infrastructure entities, e.g., exchanges, depositories

These use cases are all problematical as examples of where “non-customer” RMA is employed, for one reason or another, and in one case because RMA is not needed at all to conduct the described operation.

#	Use case	Problems
1	“Cash management: receipt of balance and transaction information on a corporate customer’s account at another bank, so that the corporate customer can view activity through its bank’s reporting tool”	• This one is a bad mistake • These operations are carried out by MT9nn messages for which no RMA is needed, as Appendix A of the Wolfsberg guidance confirms

#	Use case	Problems
2	“Cash management: relaying payment instructions from a corporate customer to their third party bank”	• This would be the most basic arrangement set up between two banks to permit MT101 to be sent between them to make a payment out of a customer account at one of them • The customary objective of the MT101 service is to concentrate funds into a lead cash management bank, and that bank, acting as MT101 Forwarding Bank, would own the BIC that the MT101 emanated from • The BICs involved in the MT101 would be the BIC associated with the customer’s account at the MT101 Executing Bank, which then is the “Account-With” Institution under the responding MT103, and either (i) the BIC associated with the customer’s account at the MT101 Forwarding Bank; or (ii) a BIC associated with a customer eBanking platform or Pooling Engine service at the MT101 Forwarding Bank • In both cases (i) and (ii) the Beneficiary Bank BIC in the MT103 would be that associated with the customer’s account at the MT101 Forwarding Bank, but – in the case of a putative UK bank with a BIC8 of UKBKGB2L - the BIC from which the MT101 was forwarded would under case (i) be a branch BIC like UKBKGB2L218 or the Head Office BIC UKBKGB2LXXX, but in case (ii) there would be a suffix specific to the service, such as -CMT or -ICM, to make a BIC11 of UKBKGB2LCMT or UKBKGB2LICM • An important detail is that no accounts – of customers or banks – are associated with UKBKGB2LCMT or UKBKGB2LICM. These BICs can then only ever have “non-customer” RMAs with other BICs in the Wolfsberg sense, so “non-customer” RMA is core to this deployment of the service • Either way, though, the service inferred by the Wolfsberg guidance is only a basic multibank international cash management service: within the context of a Banking Club or a “strategic partnership” for enhanced international corporate cash management, a “customer” RMA is usually in place to enable a higher service level • The infrastructure behind the higher service level is aimed at moving the corporate customer’s payments quickly and with low fees, and also possibly after payment clearing systems have closed • A first step would be both banks joining the same payments clearing system like EBA Euro1 for within-hours payments, eliminating intermediary banks. But it requires the banks to hold mutual nostro accounts to support after-hours payments between one another and to reduce bank-external charges to the SWIFT Traffic Fee alone

#	Use case	Problems
2	“Cash management: relaying payment instructions from a corporate customer to their third party bank” - (**continued**)	• After-hours payments includes overnight sweeps • These services are constructed with the aim of matching what the “network banks” offer, where their branches and subsidiaries hold nostros either with one another or at a central branch • In neither case are there further correspondent banks in the payment chain who may have a right to take charges, or who may simply delay the payment • The payment can then be completed with one payment message (MT103) sent off the back of an MT101 • Only in the constructions put in place for the benefit of one customer – and not put in place by the banks in order to have a service for all their customers – is there no nostro relationship • “Non-customer” RMA is not just relevant only to this flavour of the service, it is vital to the completion of the operation intended by it: the response to the MT101 should ideally be an MT103 done by the Cover method • A direct MT103 should be sent by the MT101 Executing Bank to the MT101 Forwarding Bank, to concentrate funds out of the former and into the latter • The settlement is then done by MT202 COV sent simultaneously by the MT101 Executing Bank to its currency correspondent • It is vital for the MT101 Forwarding Bank to receive a direct MT103 in response to its MT101 (i) to ensure the MT101 has been processed; and (ii) to ensure the quick application of the funds to the customer; and (iii) to verify the value-date with which the MT101 Executing Bank is guaranteeing to deliver the funds • Thus the use case in the Wolfsberg list is dependent for its success on the availability of “non-customer” RMA within the use case not mentioned by Wolfsberg: MT103 made by the Cover Method • Wolfsberg’s description of the use is case at best is partial, and, in what it does cover, it fails to identify the further need for “non-customer” RMA to make the payment resulting from the MT101

#	Use case	Problems
3	“Custody: provision of information from a sub custodian bank to the global custodian at the request of the client”	• We have to pre-suppose that the information messages involved are 5nn ones that require RMA in the first place and are not MT9nn ones which do not • There is something wrong with the wording “at the request of the client”: the client does not select the sub-custodian and in fact the client is not normally a direct client of the sub-custodian. The client may have no way of sending a request to the sub-custodian that the sub-custodian would act on • Surely the primary reporting that the global custodian receives is on the entire portfolio of securities that the sub-custodian is administering for it • If one client wants specific reports relating to its holdings in one market, surely the client would direct their request to the global custodian, who would arrange for it with the sub-custodian that is acting for the global custodian for that market • For sure the global custodian will relay information to the client that it has received from the sub-custodian: (i) relaying to the client these specific reports; or (ii) sending reports to the client that incorporate the information sent to it by the one sub-custodian together with information from other sub-custodians and from the global custodian itself • The reporting, though, is part of a larger relationship between the global custodian and a sub-custodian, a vital relationship that will involve a relationship manager being appointed, credit facilities and probably accounts: such a relationship would then fall outside Wolfsberg’s definition of a “network bank” • The global custodian surely could not operate its dealings with the sub-custodian without a cash account at the sub-custodian, to make payment for securities purchased or borrowed, and to receive payment for securities sold or lent • In that case the global custodian and the sub-custodian are “customers” of one another and their RMA is a “customer” one • “Non-customer” RMA does not feature in the normal set-up between the global custodian and the sub-custodian, contrary to what the Wolfsberg guidance states, so even if reports between them could be sent using “non-customer” RMA if they were being sent in isolation, in reality these exchanges are backed with a “customer” RMA • This use case for “non-customer” RMA then falls away

<table>
<tr><th>#</th><th>Use case</th><th>Problems</th></tr>
<tr><td>4</td><td>“Trade Finance (e.g. letters of credit): exchange of messages with banks that do not otherwise have direct payment relationships”</td><td>General
All 7nn messages need RMA
Banks tend to follow one of two policies regarding L/Cs: (i) open through the exporter’s bank, whichever bank that is; (ii) open through their local correspondent in the exporter’s country, with whom there would normally be a line for confirmation if requested by the importer (at the behest of the exporter)
The approach also needs to be flexible to where (i) an importer will not accept the confirmation of the correspondent that is willing to confirm the opening bank’s L/Cs and (ii) where the opening bank has run up against its limit for confirmation of its L/Cs at a particular bank in the exporter’s country
This gives a lot of scope for “non-customer” RMAs, because the parties willing to take a given credit risk cannot be relied upon to have a mutual account relationship behind the BICs being used for the Trade Finance operation
L/C confirmation lines play a big role here, and those require facilities and therefore a relationship manager on either side – but not necessarily cash accounts
“Non-customer” RMAs in Trade Finance can involve facilities and relationship managers, even if they do not involve cash accounts. This contradicts Wolfsberg’s definition of a “non-customer” RMA</td></tr>
<tr><td>4</td><td>“Trade Finance (e.g., letters of credit): exchange of messages with banks that do not otherwise have direct payment relationships”</td><td>Approach where a bank opens its L/C through the exporter’s bank, regardless of who its own correspondent is
The opening bank must send and receive MT7nn messages to and from the advising/negotiating bank, for which an RMA is required
If a confirmation is needed and the advising/negotiating bank is willing to add it, the advising/negotiating bank is going to need to set up a facility on the opening bank and have a banker (i.e. a relationship manager) approve it
The opening bank might alternatively have set up confirmation lines with several banks in that country, such that it can offer an exporter a choice of confirming banks who would also advise/negotiate the L/C (in the hope that one of the confirming banks would be the exporter’s bank in the first place, or, failing that, in the hope that at least one of the banks on the list would be acceptable to the exporter)</td></tr>
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#	Use case	Problems
	"Trade Finance (e.g., letters of credit): exchange of messages with banks that do not otherwise have direct payment relationships"	**Approach where a bank opens its L/C through the exporter's bank, regardless of who its own correspondent is (continued)** • The opening bank could combine the two approaches and be able to separate the roles of advising/negotiation and confirmation: open the L/C through the exporter's bank, and offer a confirmation by one or several different in-country banks • The opening bank would need to deploy a relationship manager to set up confirmation lines for its L/Cs through one or more in-country banks • "Non-customer" RMAs are important in this approach, and can be associated with facilities and relationship managers
4	"Trade Finance (e.g., letters of credit): exchange of messages with banks that do not otherwise have direct payment relationships"	**Approach where a bank always opens its L/Cs through its own correspondent in the exporter's country** • The opening bank would need to deploy a relationship manager to set up a confirmation line for its L/Cs through the correspondent • By definition the correspondent would be running the opening bank's nostro in the currency of the country (although that would not necessarily be the currency of the L/Cs) • They would need to have "customer" RMA in place for normal nostro operations • The correspondent would need to set up an L/C confirmation facility and deploy a relationship manager, but then the correspondent relationship would have necessitated the latter already • "Non-customer" RMA does not play a role in this approach
5	"Exchange of messages with payments and securities markets infrastructure entities, e.g., exchanges, depositories"	• A member of a Financial Market infrastructure would be likely to have a cash account in the FMI • If it is a payment market infrastructure the member would certainly have a settlement account such that its relationship with the FMI is a "customer" relationship in the Wolfsberg sense • In securities FMIs, like CREST, a participant settles their own trades and those of the parties it represents: the operations are frequently Delivery versus Payment, and the participant has a cash settlement account within the FMI • Then it has to have a "customer" RMA with that FMI if it is to de-fund that account with MT2nn messages, as CREST participants do to send funds to their CHAPS accounts • In addition, a positive cash balance on the account is an asset of the bank, and a credit line needs to be in place, approved by a Relationship Manager

#	Use case	Problems
	"Exchange of messages with payments and securities markets infrastructure entities, e.g., exchanges, depositories" – (**continued**)	• If the FMI is a futures and options exchange, the bank, as a member, has a margin account • The member would de-fund the margin account (if there was surplus margin) by MT2nn which requires a "customer" RMA • The amount held on the margin account is an asset of the member, so a credit line needs to be established at the member for the margin account i.e. a facility • Presumably the bank would also establish facilities for the contracts it has with the FMI where the FMI is the central counterparty • The bank would need to appoint a relationship manager for the FMI i.e. a banker who signs off on the facilities • The details of the use case do not match Wolfsberg's definition around "network banks" • Cash accounts come into play, and are de-funded by MT2nn messages, making the RMA a "customer" RMA • "Non-customer" RMA would not appear to play a role in this use case when it is laid out and examined in detail, and across FMIs that are for payments, for securities, and for financial instruments

Missing use case for "non-customer" RMA

There is a missing use case – the most important of all.

#	Use case	Problems
0	Customer MT103 payment done by the Cover method	• Not even mentioned in the Wolfsberg guidance • The need for a "non-customer" RMA with another bank in order to send it a direct MT103 in the context of a Cover payment is the main use case of "non-customer" RMA • This is nothing to do with supporting a particular customer's business and it is not sponsored by a "global line of business" • "Non-customer" RMA in this case supports a vital general capability of banks (and also of SWIFT) to be able to pay money globally, quickly and efficiently, through a secure network, using regulated institutions, with proper AML/CFT compliance end-to-end, and with proper rights of redress for the end-user

Summary of Wolfsberg's use cases for "non-customer" RMA

#	Use case	Summary of Problems
0	Customer MT103 payment done by the Cover method	• Missing • Vital in and of itself • Also vital to complete the operation that would be required under (2) below in the case where only a "non-customer" RMA was in place between the MT101 Forwarding and Executing Banks
1	"Cash management: receipt of balance and transaction information on a corporate customer's account at another bank, so that the corporate customer can view activity through its bank's reporting tool"	• Irrelevant because MT9nn messages do not require RMA at all
2	"Cash management: relaying payment instructions from a corporate customer to their third party bank"	• Only relevant where the MT 101 is sent outside the context of a preconfigured "strategic partnership" between the MT101 Forwarding and Executing Banks, and outside the context of a Banking Club • Where it is relevant, it is vital to the customer that the resulting payment be carried out using the Cover and not the Serial method
3	"Custody: provision of information from a sub custodian bank to the global custodian at the request of the client"	• Implausible: relationships between global custodians and sub-custodians normally involve cash accounts, credit facilities and relationship managers, necessitating "customer" RMA and contradicting the Wolfsberg description of what is a "network bank"
4	"Trade Finance (e.g., letters of credit): exchange of messages with banks that do not otherwise have direct payment relationships"	Regarding the approach where a bank opens its L/C through the exporter's bank, regardless of who its own correspondent is: • "Non-customer" RMA is critical and is associated with credit lines and relationship managers, contradicting the Wolfsberg description of what is a "network bank"
4	"Trade Finance (e.g., letters of credit): exchange of messages with banks that do not otherwise have direct payment relationships"	Regarding the approach where a bank always opens its L/Cs through its own correspondent in the exporter's country: • The two banks will already have "customer" RMA in place to service the correspondent relationship
5	"Exchange of messages with payments and securities markets infrastructure entities, e.g., exchanges, depositories"	• These relationships involve cash accounts so "customer" RMAs will be in place

The starting list might therefore have comprised seven use cases and not the five that Wolfsberg states, with use case 4 actually being two distinct variants. Then “non-customer” RMA is irrelevant to four of the seven use cases: 1, 3, 5, and to one of the variants of use case 4.

The residual list has just three use cases where “non-customer” RMA is relevant:
a) Making MT103 payments using the Cover method;
b) Relaying MT101 to banks with whom the Forwarding Bank is not in a “strategic partnership” or Banking Club relationship with the Executing Bank, and then repatriating the monetary amount by MT103 Cover method back to the Forwarding Bank;
c) Involving credit-risk absorbing parties in Trade Finance operations.

Significance of the omissions
The main operations affected when “non-customer” RMAs are cut off are ones that directly, and negatively, impact the end-users of international banking services in the real economy.

Impact of Use Case 0 – denial of MT103 Cover method
The first of the three use cases, and the most important of all, is the one that Wolfsberg does not mention: a customer payment made by the Cover method. With no RMA in place between the “Account with” Institution and the Beneficiary Bank, the payment has to be made by the Serial method, with the payment being relayed down a chain of correspondent banks, adding to the number of parties involved, reducing the certainty of what the wording and information will be that reach the beneficiary, and risking additions to cost and timing.

Impact of Use Case 2 – denial of multibank Cash Management over accounts at MT101 Executing Banks that have no formalised relationship with the MT101 Forwarding Bank
The second of the three use cases is the mobilisation of international corporate cash by MT101, but limited to instances where the Executing Bank is one of the customer’s relationship banks but has no formalised relationship with the Forwarding Bank.

The Wolfsberg definition fails to embrace Banking Clubs (like IBOS Association) and more developed “strategic partnerships” in which it is highly likely (though not absolutely certain) that there are Account Servicing Institution relationships in place, because these are required to deliver an enhanced international cash management service. In that case the RMA in place will be a “customer” RMA.

The lack of “non-customer” RMA for the purpose in question has two impacts:
1. It restricts the ability of the customer to implement a solution based on the banks the customer has already selected (for whatever reason) because the lead bank has no “non-customer” RMA with the banks on the customer’s list, but only with ones on the lead bank’s own list. Indeed, the lead bank’s only connected party in the country concerned could be its own branch or subsidiary;
2. The movement of the funds back to the Forwarding Bank becomes less certain in terms of timing, fees and value-dating because the payment has to be made by MT103 Serial method and not MT103 Cover method.

Impact of Use Case 4 – exclusion of risk absorption parties to Trade Finance
The third of the three use cases is actually a set of operations to conduct international trade transactions, and to incorporate several parties into a single transaction, including possibly a separate advising/negotiating bank and a confirming bank.

Even where the banks involved may have correspondent relationships with one another behind some of their BICs, it is far from certain that any of the banks will have "customer" RMAs in place behind the BICs involved in the specific trade operation in hand.

For example where a USD Letter of Credit, opened in South Korea, is advised/negotiated in Belgium by one Belgian bank and confirmed by a different Belgian bank, it could not be assumed that there were Account Servicing Institution relationships in place between them. There might be Euro ASI relationships and/or ones in Korean Won, but it would be chance if the BICs over which the traffic servicing those relationships flowed were the same on both sides as the ones to be used for the trade operation.

The existence of "customer" RMAs between the BICs involved in a particular Trade operation cannot be relied upon even if the institutions involved have wide-ranging "customer" relationships between other BICs they control.

"Non-customer" RMAs are needed so as to incorporate multiple parties into a complex transaction and are therefore extremely important in the conducting and risk-mitigation of international trade transactions on SWIFT, failing which the transaction may not occur at all, it may revert to paper, or it may be transacted over a different and less transparent network than SWIFT.

Detriments caused by cancellation of "non-customer" RMA - general
These following sections attempt to qualify the detriments to the client caused by "non-customer" RMA being cancelled by banks.

There is no attempt made to quantify them. Wolfsberg Group should take on that task and quantify the detriments caused and compare them to the size, frequency and nature of the risks caused by having "non-customer" RMA in place.

Detriments caused by cancellation of "non-customer" RMA - Use Case 0 – denial of MT103 Cover method

- Size of charges:
    - where a Cover payment method is used, the only MT103 "customer payment" that can have the "non-bank" tariff applied to it goes direct from the Account-With Institution to the Beneficiary Bank
    - the other legs of the transaction starting with the MT202 COV are bank-to-bank payments upon which the lower "interbank" tariff would apply
    - The "non-bank" tariff for a cross-border payment could be as high as 0.15% flat
    - The Order Party and the Beneficiary are at liberty to negotiate these charges insofar as they are taken by their respective banks, but they have no power to negotiate with intermediary correspondents

- Number of times the charge could be taken:
    - A Cover payment that has one direct MT103, one MT202 COV, then a local interbank payment and an MT910 Advice of Credit to the Beneficiary Bank from its currency correspondent, contains just one payment qualifying for the "non-bank" tariff
    - The same Serial payment would involve two MT103s and a local high-value payment (which in the UK and through CHAPS would also be conducted using MT103), and that adds up to three "non-bank" payments in all
    - The intermediary banks handling these extra customer payment messages would be the international correspondent banks
    - Even if a fee that was a percentage of the face value could not be taken, a per-item fee could be levied by each of the international correspondent banks in the payment chain, and the longer the chain, the more banks are entitled to take a charge

- Timing:
    - A USD payment made from the UK to Germany at 14:00 UK time would have a good chance of being credited with same-day value in Germany, if the Beneficiary Bank received the direct MT103 at 15:01 CET
    - At that point the Account-With Institution has committed to deliver good funds to the Beneficiary Bank's USD correspondent, and the Beneficiary Bank can claim compensation from the Account-With Institution if good funds are not delivered
    - This is a typical Treasury payment where the beneficiary is related to or may itself be the order party, and they have a service level with the Account-With Institution that it will send a direct MT103 to the Beneficiary Bank on D if the payment order has been received by the USD cut-off time, which might be 15:00 UK time
    - The beneficiary would then be confident to send an MT210 Notice to Receive to the Beneficiary Bank before the Beneficiary Bank's USD cut-off time to ensure it puts the funds on position for same-day value
    - The degree of certainty would be much lower under the Serial method. Even if the Beneficiary Bank was willing to act on an MT210, the beneficiary would want to be sure that the Beneficiary Bank was going to receive a payment message (like an MT103) and not just an information message (MT910) before its currency cut-off time, before the beneficiary would take the risk of causing the Beneficiary Bank to take the funds on position
    - The blockers under the Serial method could be one or more of (i) the payment triggering a "false positive" under the AML/CFT criteria of one of the intermediary banks even if the same payment had cleared the AML/CFT criteria of the Account-With Institution; (ii) the currency correspondent of the Account-With Institution did not release the payment promptly into the local RTGS clearing because it was either in overdraft already or would have gone into overdraft and/or it had inadequate collateral to meet the amount of the payment; (iii) processing inefficiency at any intermediary bank

- Traceability:
    - The reference generated by the Account-With Institution and which the order party will have access to may not be on the message that arrives at the Beneficiary Bank
    - The order party cannot give the beneficiary any reference that the order party can say with certainty will be recognisable by the Beneficiary Bank
    - If a direct MT103 is sent from the Account-With Institution to the Beneficiary Bank, the order party will be able to obtain the reference and tell it to the beneficiary, who can use it to trace the payment at the Beneficiary Bank

- Usage of suboptimal alternatives:
    - End-users have to go to "off-grid" Money Services Businesses ("MSB"), who give them a transaction reference they can communicate direct to the beneficiary, in the knowledge that the paying bank has received that reference from the MSB…where the security of the customer's money may be less certain than if transmitted through proper banks due to (i) credit risk on the MSB; (ii) security of the MSB's IT systems (iii) unregulated suppliers; (iv) no right of redress; (v) no financial ombudsman
    - Payments are made but bypassing the AML/CFT controls built into the message processing routines of SWIFT members
    - The MSBs are "off-grid" because the "on-grid" ones have been cut off from the international banking system by "de-risking"

As an aside, the above detriments show a good correlation with the Problem Statement behind the SWIFT Global Payment Initiative. The author sees in GPI a response at one or more steps removed to the unacceptability to the marketplace as a whole of the results of Wolfsberg's guidance i.e. Wolfsberg's guidance has caused detriments in the marketplace that it requires GPI to clear up.

Detriments caused by cancellation of "non-customer" RMA - Use Case 2 – denial of multibank Cash Management over accounts at MT101 Executing Banks that have no formalised relationship with the MT101 Forwarding Bank

- Clients would be unable to include mobilisation of surplus balances in Bank X in their international cash management scheme (although they can include visibility of balances at Bank X through MT9nn messages that do not require RMA)
- Loss of deposit margin if the surplus funds lying in Bank X could be better invested from the corporate centre
- Loss of full bid-offer spread and of both loan and deposit margins if the corporate centre could have used the funds to lend to another group company that was in overdraft
- …possibly mitigated by….
    - If Bank X was SWIFT-Ready and the client joined SWIFT itself, the client could send the MT101 direct to Bank X and not through any Forwarding Bank…although there is no certainty that Bank X is SWIFT-Ready and this option does not solve the issue of the resulting payment having to be made by the MT103 Serial method

  - The client might have another bank in the same country with whom the Forwarding Bank was willing to exchange "non-customer" RMA, and the client might be able to alter the configuration of its local cash management such that the cash surplus came to reside on the account with this new Bank Y, and not with Bank X
  - If the Forwarding Bank, refusing to exchange "non-customer" RMA with either Bank X or Bank Y, happened to be a leading international cash management bank itself and could offer up either its branch or subsidiary or its local "strategic partner", then the client might be able to alter the configuration of its local cash management such that the cash surplus came to reside on the account with the branch, subsidiary or "strategic partner" of the leading international cash management bank, and could then be mobilised through their eBanking service and not need to use MT101 at all

[Note: leading international cash management banks include Bank of America, Citibank, Deutsche Bank, HSBC, JPMorgan, Societe Generale, and Standard Chartered Bank]

Detriments caused by cancellation of "non-customer" RMA - Use Case 4 – exclusion of risk absorption parties to Trade Finance

- Exports and imports not taking place at all – which would be of great concern to governments
- Exporters proceeding without a confirmation and taking Bank and Country Risk outside their Bank Risk and Country Risk Acceptance policies
- Exporters proceeding with a confirmation from a bank that falls outside the criteria of their Bank Risk Acceptance policy
- Operations having to be conducted on paper as opposed to via SWIFT messages
- Resulting increase in manual work, operational costs and risks of error

Conclusion of this analysis and re-visitation of Wolfsberg guidance

The definitional base used by Wolfsberg for qualifying where "non-customer" RMAs are used is flawed.

The use cases that Wolfsberg quotes – as examples of its definitional base in action – do not all reflect its definitions, are in some cases implausible as examples of "non-customer" RMA, and are incomplete: the use cases miss out the most important one.

Guidance based on flawed definitions and use cases cannot be relied upon to correctly and adequately guide the behaviour of SWIFT members – the banks rendering international banking services to end-users in the real, global economy.

Wolfsberg could not even prove that "non-customer" RMA is a source of AML risk: it stated itself that the main risks were operational. The issue therefore falls outside its own scope.

The Wolfsberg guidance on "non-customer" RMA should be withdrawn.

Source documents:
Wolfsberg guidance issued in 2016 as “SWIFT-RMA-Due-Diligence.pdf”
FSB list of Global Systemically-Important Banks of November 2017
SWIFT Customer Security Programme slidedeck May 2017
JMLSG revised guidance 2017 Parts I, II and III

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