SWIFT Response to the ESMA, EBA & EIOPA joint consultation paper "The Risk Factors guidelines"

22 January 2016

SWIFT welcomes the joint consultation paper issued by the European Supervisory Authorities (ESAs) on the factors that credit and financial institutions should consider when assessing the money laundering and terrorist financing risks associated with their business relationships, and supports the clarification that the risk guidelines provide.

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 more than 3,000 financial institutions. We connect approximately 10,800 connected firms across 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 and a comprehensive portfolio of utility services that sets the standard in financial crime compliance and improves security, transparency and efficiency across the global financial services industry.

As a community-based player at the heart of the correspondent banking industry, and as the secure financial messaging provider to the industry, supporting the Community with financial crime compliance has been a natural strategic extension of our core services. We have taken a smart approach to financial crime compliance, with industry-defined standards, a common infrastructure, shared costs and an innovative approach to industry-wide challenges. We have three sets of financial crime compliance services: a Sanctions utility, offering a range of tools to optimise sanctions compliance; a KYC utility, providing a registry of data to enable due diligence in correspondent banking; and Compliance Analytics, a single portal through which to analyse and manage financial crime risk, which will soon be extended to a full AML utility.

SWIFT has internal compliance expertise and capabilities and recently created an expert business unit to support financial crime compliance business development. Our successful acquisition of Omnicision in 2014, not only enabled us to acquire strong products, but also significantly strengthened expertise and innovation capabilities within the SWIFT team.

We thank the ESAs again for the opportunity to comment. Please do not hesitate to contact us should you wish to discuss our comments further.

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SWIFT supports the guidelines issued by the ESAs and agrees they are essential to help firms identify, assess and manage money-laundering and terrorist financing risks associated with individual business relationships and occasional transactions.

In Title II, Assessing and Managing Risk, sections 14 and 15, the ESA's Guidelines set out which sources firms should use to gain the information necessary for assessing and managing the ML/TF risk associated with business relationships and occasional transactions. In addition to those sources that are set out in the draft Guidelines, we believe that the Guidelines would benefit from the addition of KYC Utilities in this list. It would also bring the Guidelines in line with the recommendations set out in CPMI's October 2015 *Consultative Report on Correspondent Banking*.

As noted in in CPMI's report, correspondent banks need to identify and understand their respondents' banking activities and know if the respondents maintain additional correspondent banking relationships for customer due diligence purposes. The KYC due diligence process entails a massive exchange of documents and the process is complex, costly, time-consuming and labour-intensive, because -

- the same or very similar information needs to be sent to all correspondents
- correspondents may have differing requirements in terms of privacy, format or language.
- information is exchanged throughout a relationship, not just at the outset

There are more than 1.3 million bilateral correspondent relationships across the industry, creating a huge administrative burden for banks each time a relationship is added, or information needs updating. KYC utilities are tools that can significantly alleviate this problem, as they provide secure, shared platforms for financial institutions to exchange KYC data.

KYC utilities are shared repositories of relevant due diligence information, which can increase transparency and promote effective and cost-effective compliance. Information is supplied by banks to the utilities for the benefit of other banks, and updated when necessary in line with standardised templates. Information-providing banks maintain full control over their data and can determine which other banks can have access to it.

As the CPMI observed in its report, using a KYC utility can introduce many benefits, including:

- the number of times a bank must send the same information could be greatly reduced;
- the accuracy and consistency of the information could improve, as banks would only maintain one set of updated information;
- the use of a single template might promote the standardisation of the information that banks provide to other institutions as a starting point for KYC obligations;
- the use of a central KYC utility might speed up the process;
- costs could be reduced thanks to a lesser amount of documentation being exchanged.

There are a number of KYC utilities currently in operation. SWIFT believes they can do much to increase the effectiveness of banks' KYC operations as well as mitigating risk and reducing costs. Indeed, as Recommendation 3.2 of the CPMI *Consultative Report on Correspondent Banking*, states:

***Recommendation**: The use of KYC utilities in general - provided that they store at least a minimum set of up-to-date and accurate information - can be supported as an effective means to reduce the burden of compliance with some KYC procedures for banks active in correspondent banking business. Relevant stakeholders (eg the Wolfsberg Group), may review the templates and procedures used by the different utilities and identify the most appropriate data fields to compile a data set that all utilities should collect as best practice and that all banks have to be ready to provide to banks which require the information.*

As well as listing KYC Registries under the list of sources that firms should consult, we would urge the ESAs to also encourage firms to participate in KYC utilities as critical mass is needed to ensure the broadest possible set of high-quality, validated data.

Furthermore, and as we recommended in our response to the CPMI, we suggest that the ESAs agree a baseline set of documentation that should be included in KYC utilities; standardisation of this baseline data which would ensure interoperability between KYC utilities. As mentioned above, a number of KYC utilities have emerged in recent years and it is likely that at least a few of these will continue to co-exist well into the future. It would be beneficial, therefore, if these utilities were all to collect a common set of basic information for each type of registered entity – and for this information to be shared across these utilities. Standardisation of the baseline data set(s) and documents maintained by such utilities would lead to further efficiencies and savings at an industry level, given that it is unlikely that any single utility will emerge catering to all segments and use-cases.

SWIFT thanks the ESAs again for the opportunity to comment on these important issues. We would be pleased to discuss our comments in more detail should that be helpful.

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