

Client Training: Cash Services

Client Training “Summer Seminar” July 2016





It's all about Cash



Drivers of cash issues

Rules, Regulations and Standardisation

IBAN

SEPA

Clearing

Services & Developments



It's all about Cash



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Rules, Regulations and Standardisation

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SEPA

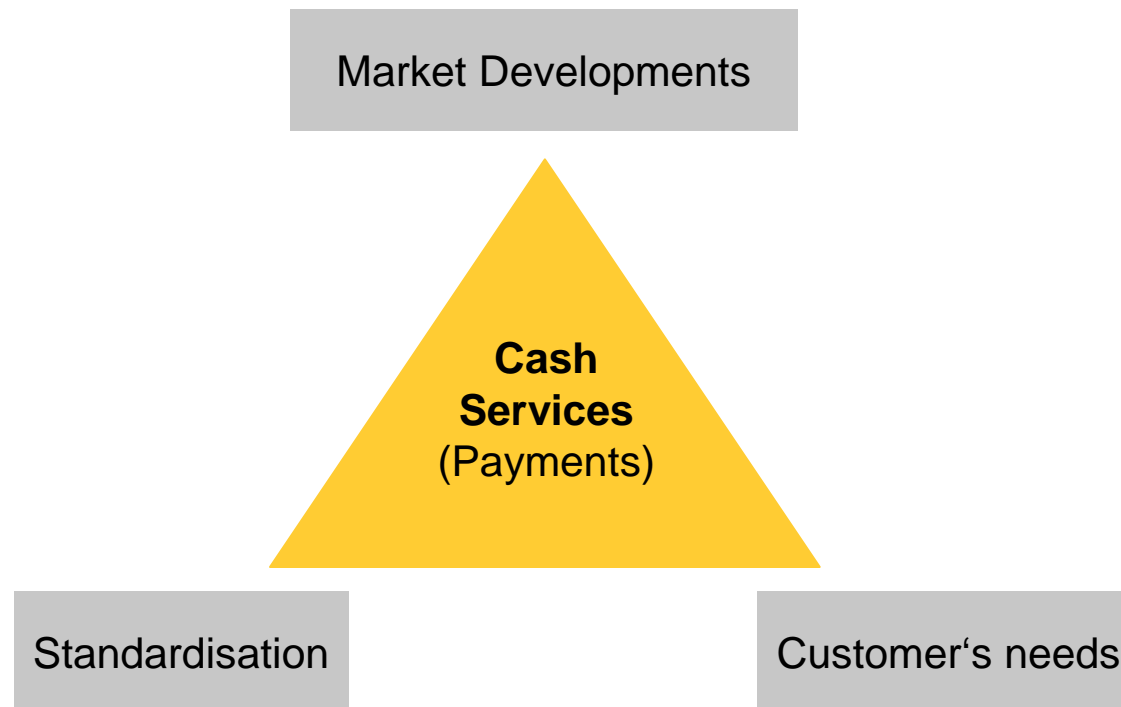
Clearing

Services & Developments











Drivers of cash issues



- New formats – use of XML growing worldwide
- Stronger regulation leads to a growing demand for more standardisation and a rising demand for client individual routing routines
 - Changing drivers in payment costs

It's all about Cash



-  Drivers of cash issues
-  **Rules, Regulations and Standardisation**
-  IBAN
-  SEPA
-  Clearing
-  Services & Developments



Complying with Rules and Regulations | Sanctions

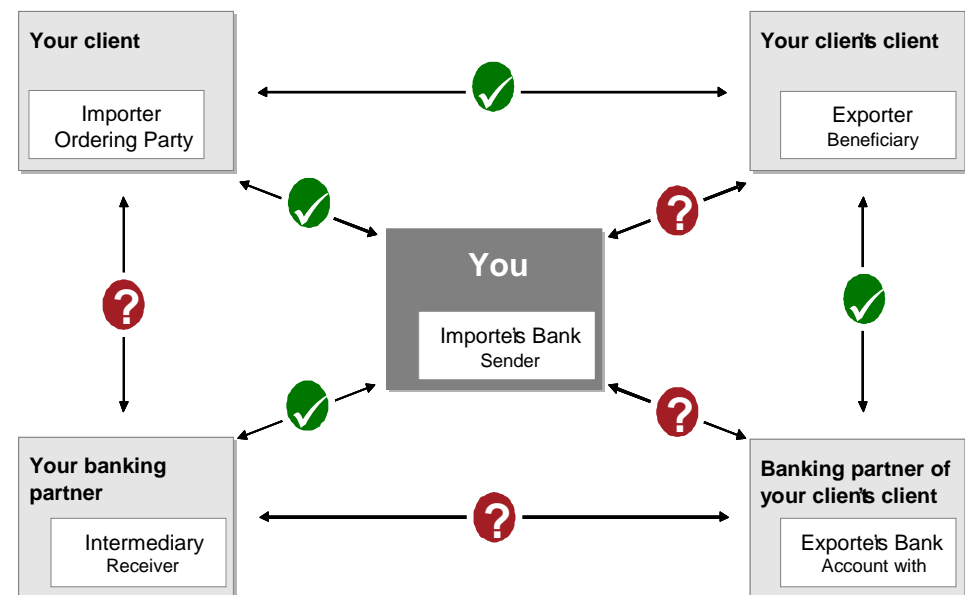
- › Commerzbank provides payment services to most areas worldwide and in many different currencies
- › Sanctions we need to follow might be of different origin
 - Unilateral Sanctions (e.g. European Union, Germany)
 - Multilateral Sanctions (e.g. United Nations)
 - Jurisdictional Links (e.g. OFAC for USD payments in Europe)
- › As such a multitude of different sanctions needs to be considered for each and every transactions depending on, but not limited to:
 - Currency
 - Location of banks included in the payment chain
 - Location of ordering party and final beneficiary

Complying with Rules and Regulations | KYC is essential

Numerous sanctions' rules given by EU, UN or OFAC and other regulations like the US Patriot Act make proper know your customer (KYC) processes inevitably

KYC means

- Gathering details like company name, legal entity, registered business address, legal registries, organisational structure
- Identifying the beneficial owner
- Checking the correspondent bank's business model.
- Decide if this business model fits to the transaction ought to be done with us?
- Are there any negative information of relevance to the business partnership?
- Risk scoring according to internal benchmarks



Complying with Rules and Regulations | Routing instructions

There are various sources for Routing Information to direct payment transactions:

- Banker's Almanac
- Directories of the EBA Clearing Systems and of TARGET2
- SWIFT SSI Directory
- TGBR – The Global Banking Resource
- Information by a bank itself, either as stated in the internet or directly given via SWIFT or e-mail

The main and most welcomed source for a routing direction is still the bank itself and the instructions that are given directly via e-mail or SWIFT.

In case that during the process of a payment no routing direction can be found in Commerzbank's database, the above mentioned third party sources might be used for an individual payments.

Complying with Regulations | Updates on MT 103 in a nutshell - recommendations on field 50a / 59a usage

Tag	Status	Field Name	Content/Options
50a	M	Ordering Customer	Option A, F or K with - account number <u>or</u> - IBAN plus BEI <u>or</u> - full details on the ordering customer, i.e. name + full address (street/city)
59F	M	Beneficiary Customer	First subfield /account number (preferably of the beneficiary customer) Second subfield /Name & address of the beneficiary customer <i>/address line beginning with e.g. a street name</i> <i>/country and town beginning with the ISO country code followed by additional details</i>

- FATF* REC 16: information on the ordering customer (field 50a) and the beneficiary customer (field 59a) are to be at hand upon request of ordering, intermediary or beneficiary financial institution

- Consequence:

for Field 59a the new letter option F was introduced with the SWIFT Standard Release November 2015

for field 50 the already existing recommendations to its letter options have been detailed



The free format options for the fields 50 and 59 will be removed in SR2020 by SWIFT

Complying with Rules and Regulations | Updates on MT 103

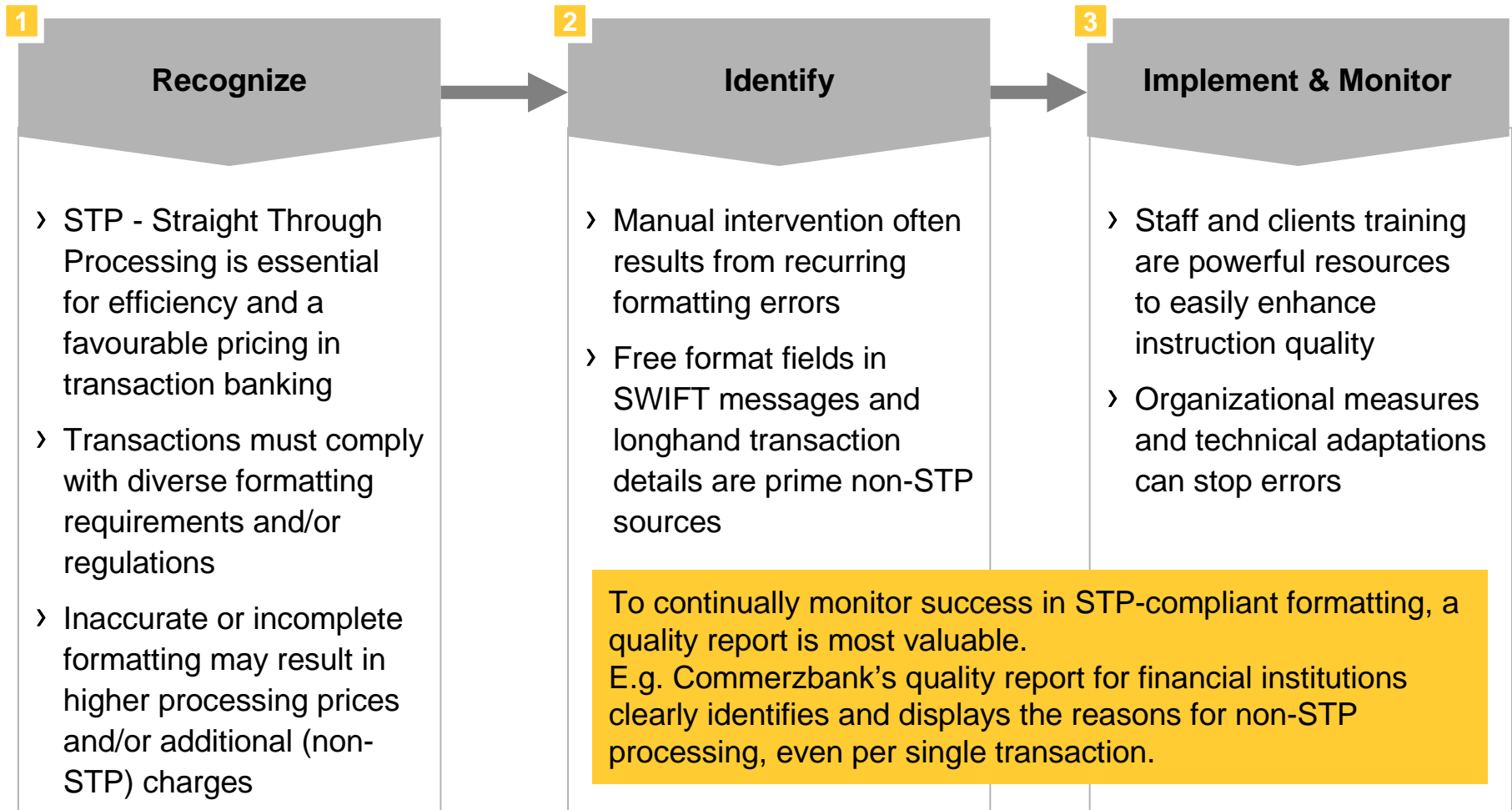
- recommendations on field 50a / 59a usage-

The SWIFT standard offers a choice of 3 options to format information on sender or receiver customer:

	Content	Alternative
Option A	appropriate if ordering customer is a corporation with a non-financial institution BIC or if a bank makes payments on its own behalf, with the bank's BIC is used as identifier	if no account number is available, the subfield account must carry a unique identifier e.g. tax-id, preceded by a slash
Option F	used in absence of a BIC; minimum with it is 2 lines: one for the party identifier (starting with a slash) and one for name & address	the lines of subfield 2 "name & address" must start with a number between 1 and 8 followed by a slash
Option K	is the least structured but still acceptable format; if no account number for subfield 1 is available, it must carry a unique identifier e.g. tax-id	subfield 2 "name & address" must include name of the ordering customer and address details preferred: "/" followed by ISO country code, place of residence (domicile) of the related customer, "/", town, zip code, country division

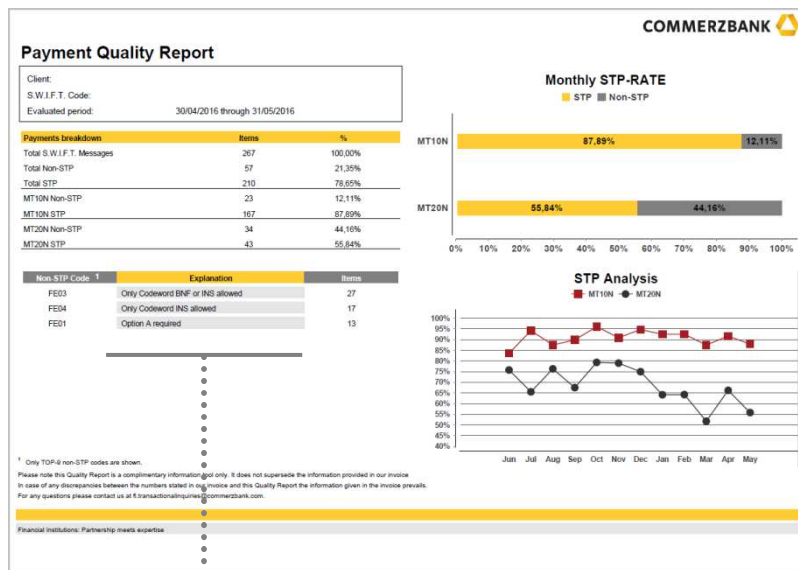
 **The free format options for the fields 50 and 59 will be removed in SR2020 by SWIFT**

Standardisation | Achieving higher STP - Rates

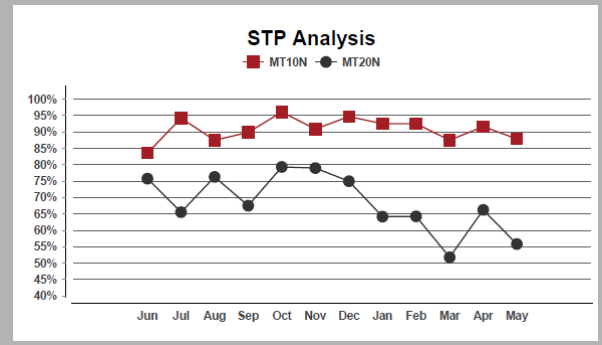


Standardisation | Support to achieve higher STP - Rates

Our monthly Payment Quality Report supports your endeavours to enhance instruction quality:



Monitor your STP Ratio



Analyze the reasons for non-STP







Non-STP Code ¹	Explanation	Items
FE03	Only Codeword BNF or INS allowed	27
FE04	Only Codeword INS allowed	17
FE01	Option A required	13



Display on single transaction basis is also available.

It's all about Cash



-  Drivers of cash issues
-  Rules, Regulations and Standardisation
-  **IBAN**
-  SEPA
-  Clearing
-  Services & Developments



IBAN | structured, yet individual

The introduction of the IBAN originally derives from an initiative of the European Committee for Banking Standards (ECBS). The adoption of a standardized account number systematic for financial institutions within the EU was one major step towards a uniform payment process, the move from individual to mass-payment structures, the introduction of SEPA.

Most non-European countries decided to build or renew their domestic interbank clearing and to bring in IBAN as a structured and checkable account number.

However, the IBAN structure allows for numerous variations:

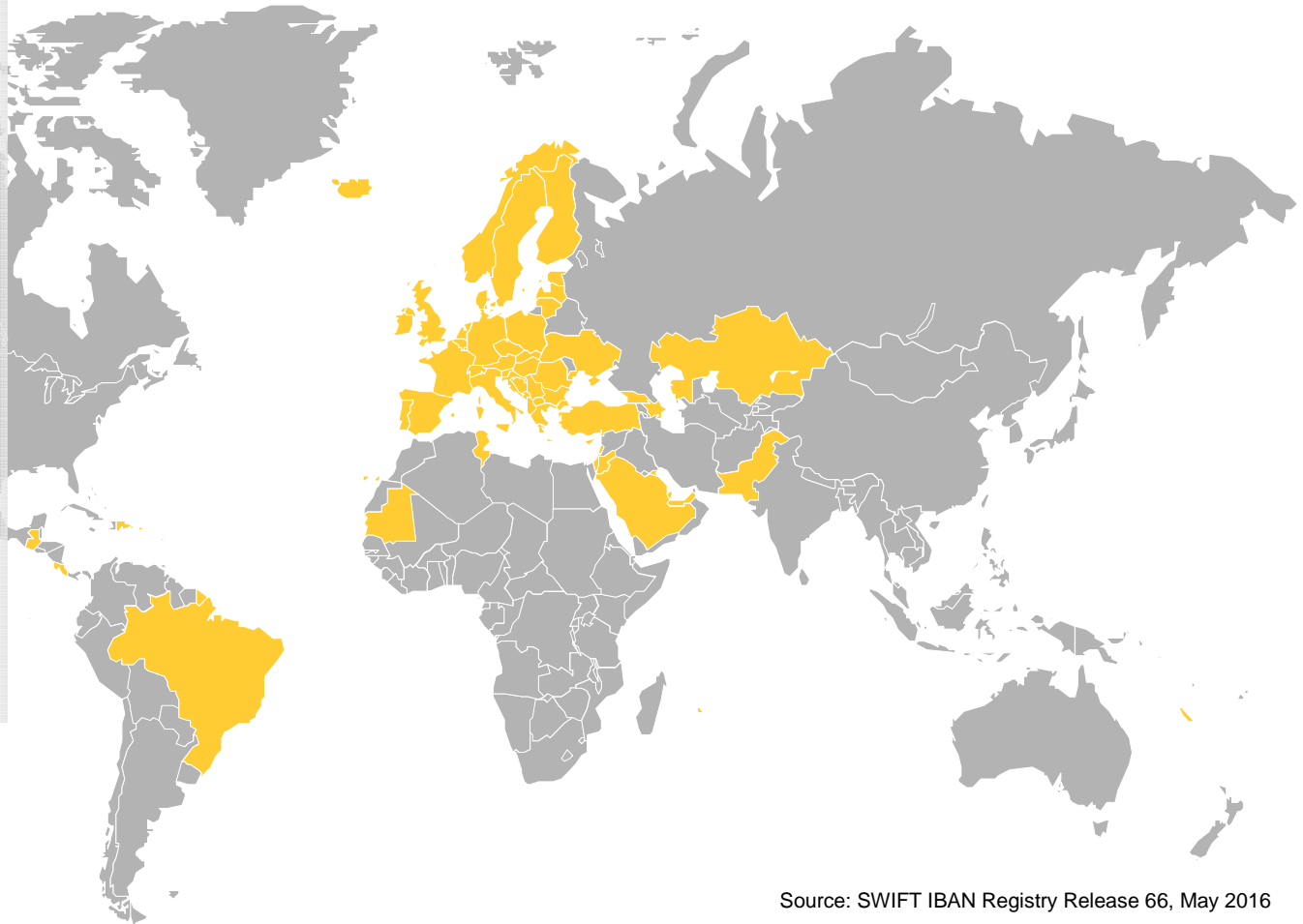
Country	Length	Example of paper representation	
Norway	15	NO93 8601 1117 947	<i>The shortest worldwide</i>
Germany	22	DE89 3704 0044 0532 0130 00	<i>An average one in Europe</i>
Virgin Islands	24	VG96 VPVG 0000 0123 4567 8901	<i>An average one worldwide</i>
Jordan	30	JO94 CBJO 0010 0000 0000 0131 0003 02	<i>The longest outside Europe (+ KW, MU)</i>
Malta	31	MT84 MALT 0110 0001 2345 MTLC AST0 01S	<i>The longest worldwide</i>



The longer an IBAN, the more formatting / copying errors may occur!

IBAN | worldwide

Albania	Iceland	Portugal
Andorra	Ireland	Qatar
Austria	Israel	Romania
Azerbaijan	Italy	Saint Lucia
Bahrain	Jordan	San Marino
Belgium	Kazakhstan	Sao Tome and Principe
Bosnia and Herzegovina	Republic of Kosovo	Saudi Arabia
Brazil	Kuwait	Serbia
Bulgaria	Latvia	Seychelles
Costa Rica	Lebanon	Slovak Republic
Croatia	Liechtenstein	Slovenia
Cyprus	Lithuania	Spain
Czech Rep.	Luxemburg	Sweden
Denmark	Macedonia	Switzerland
Dominican Rep.	Malta	Timor-Leste
Estonia	Mauritania	Tunisia
Finland	Mauritius	Turkey
France	Moldova	Ukraine
Georgia	Monaco	United Arab Emirates
Germany	Montenegro	United Kingdom
Gibraltar	Netherlands	Virgin Islands
Greece	Norway	
Guatemala	Pakistan	
Hungary	Palestine	
	Poland	



Source: SWIFT IBAN Registry Release 66, May 2016

IBAN | „misuse“

```

:20:111017452560
:23B:CRED
:32A:110202EUR4700,00
:33B:EUR4700,00
:50K:/IT90Z0200801422000010156058
VALLEJO VILMA MIRTHA
VIA LAVIOSA 28 9
16156 GENOVA GE
:57A:COBADEFFXXX
::59:/DE35500400000877507400
BANCO ABCD
FRANCOFORTE
::70:ACC.LAV.FOR FURTHER CREDIT
TO XYZ AG.SUSUA REP.DOM
:71A:SHA
    
```







- › The use of IBAN **does not** automatically qualify the transaction for special products or pricing ranges.
- › However, in the EU transactions with IBAN are handled according to very specific rules. Non compliance may result in delays, rejects, manual handling, additional costs.

The **IBAN of a bank must not** be used in a commercial payment instruction (see example on the left), because

- › the payment would simply be credited to the bank's account without separate instruction/advice. The reason for payment would only be shown on the statement of account.
- › ABCD Bank would consequently not receive any instruction that the proceeds needs to be paid onward to the XYZ Company.
- › there might rise an AML issue out of this payment because its commercial beneficiary is unclear.

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SEPA | Dimensions

34 countries

500mn citizens

20mn companies

87,5 bn payments p.a.

S

Single

E

Euro

P

Payments

A

Area

1 single market

- › local, regulated market
- › uniform processing forms
- › common standards
- › European regulations and
- › a common legal framework



SEPA | Overview

Payment Types

- SEPA includes credit transfers (SCT), direct debits (SDD – Core and B2B) and card payments (SCF)
- SEPA payments are used both for domestic and cross-border transactions within the SEPA area

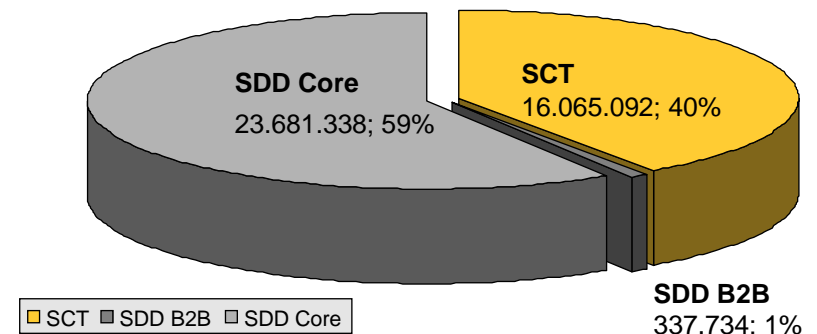
Volumes

- The average daily traffic on the STEP2 platform currently stands at over 40 million transactions with peak days of over 100 million payments
- Processing speed for payments within SEPA area is now very fast with already 50% of all payments being processed „same day“

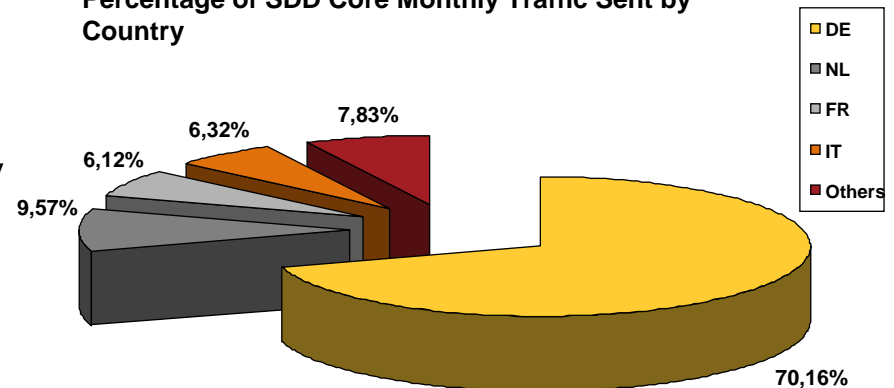
Migration to full XML-usage

- Since August 2014, SEPA instruments are mandatory inside EUR-zone
- October 31st, 2016 will mark the migration-end date for all non-EUR SEPA countries

STEP2 Daily Average Volumes (May 2016)



Percentage of SDD Core Monthly Traffic Sent by Country



SEPA | What is „new“ because of SEPA?

New vocabulary ...

ISO20022 XML pain.001
 pain.002 **pacs.008** pain.008
 pacs.002 pacs.003 pacs.007 camt.052
 camt.053 camt.054 camt.056
Creditor-Id **Mandate-Id** **SDD**
Core Direct Debit **B2B Direct Debit**
COR1 **SCT** Return Reversal
 Refund EBA Clearing FileAct **Pre-**
Notification **E-Mandate** **Consumer**







... new technical standards

```

<S2SCTScf:SndgInst>ZYDOFRP0</S2SCTScf:SndgInst><S2SCTScf:RcvgInst>COBADEFF</S
2SCTScf:RcvgInst><S2SCTScf:Srcvld>SCT</S2SCTScf:Srcvld><S2SCTScf:FType>SCF</S2S
CTScf:FType><S2SCTScf:FileRef>FILEXXX8118SMD01</S2SCTScf:FileRef><S2SCTScf:Routi
ngInd>ALL</S2SCTScf:RoutingInd><S2SCTScf:FileBusDt>2008-01-18</S2SCTScf:FileBusDt>
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</sw8:Cd></sw8:SvcLvl></sw8:PmtPlnf><sw8:IntrBkSttlmAmt Ccy="EUR"> 22100.01
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-  **Clearing**
-  Services & Developments



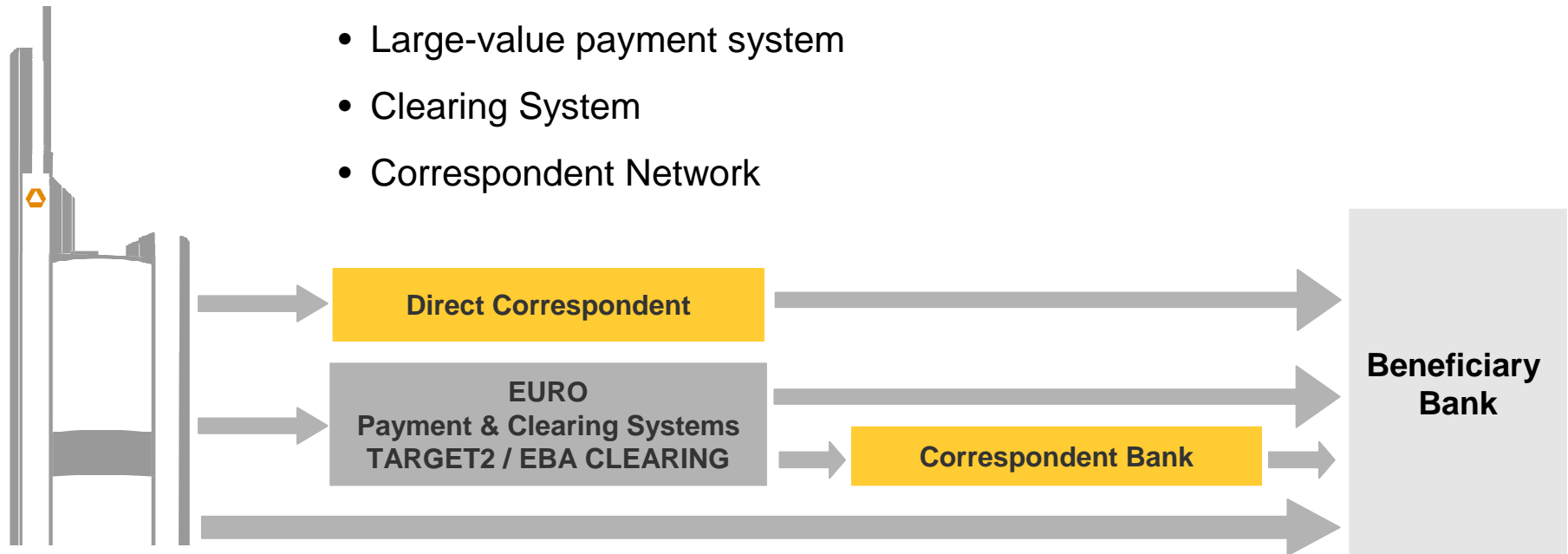
Clearing | Cash Services

Channelling Euro Payments

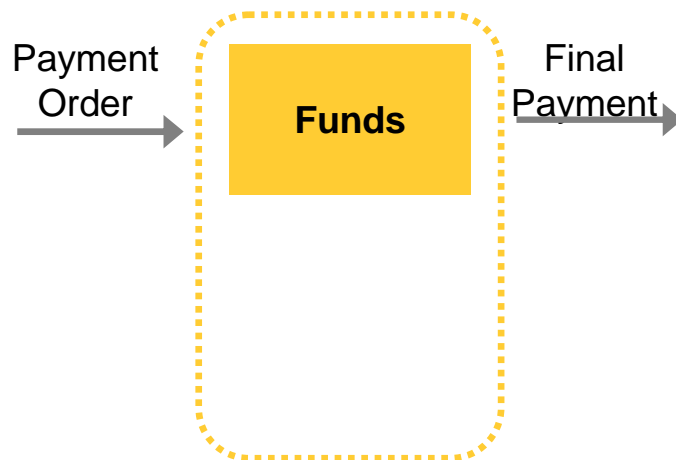


- Selection of the payment system suited to the type and size of transaction involved
- Ensurance of smooth access, fast and cost-efficient processing by use of

- Large-value payment system
- Clearing System
- Correspondent Network



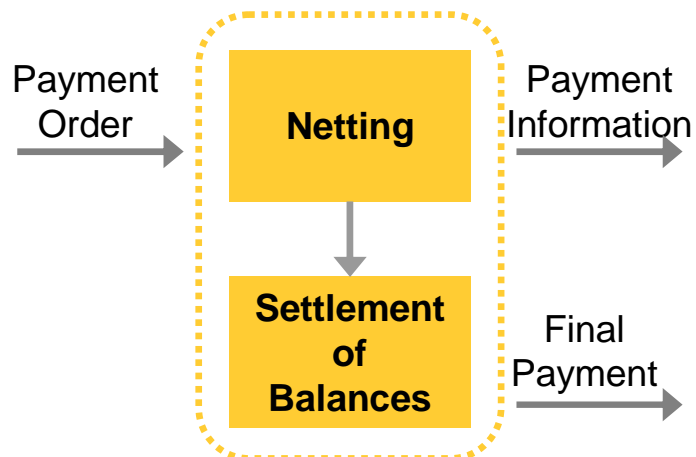
Clearing | Basic Types of Euro Clearing Systems



Gross Settlement System

- › Early Finality
- › No Settlement Risk
- › High Liquidity Requirements
- › Example: **TARGET2**

Clearing System



Net Settlement System

- › End of Day Finality
- › Inherent Settlement Risk
- › Low Liquidity Requirements
- › Example: **EBA EURO1**

Clearing | Euro payment and clearing systems – an overview



ECB European Central Bank



Direct membership is open to all banks based in the European Economic Area



ECB provides **TARGET2**, a real-time **gross settlement** clearing system for individual payment transactions in EUR



- › A Single Shared Platform enables the national EU central banks to connect their payment modules to the system
- › TARGET2 combines the benefit of a secure gross settlement with the advantage of liquidity-saving processing
- › The system is open from 07:00 a.m. until 06:00 p.m. CET.

EBA Euro Banking Association







Privately owned company with over 150 member banks and about 50 associate members from across the world

EBA's clearing company EBA CLEARING provides various **net settlement** euro payment platforms for EU-based banks

- › **EURO1**: Individual cross border and domestic high value euro payments
- › **STEP1**: Low-cost offering for commercial payments | Participants need a EURO1 bank as liquidity provider/settlement bank
- › **STEP2**: The first PE-ACH (pan-European ACH) providing various ACH-solutions for intra-European mass payments

It's all about Cash

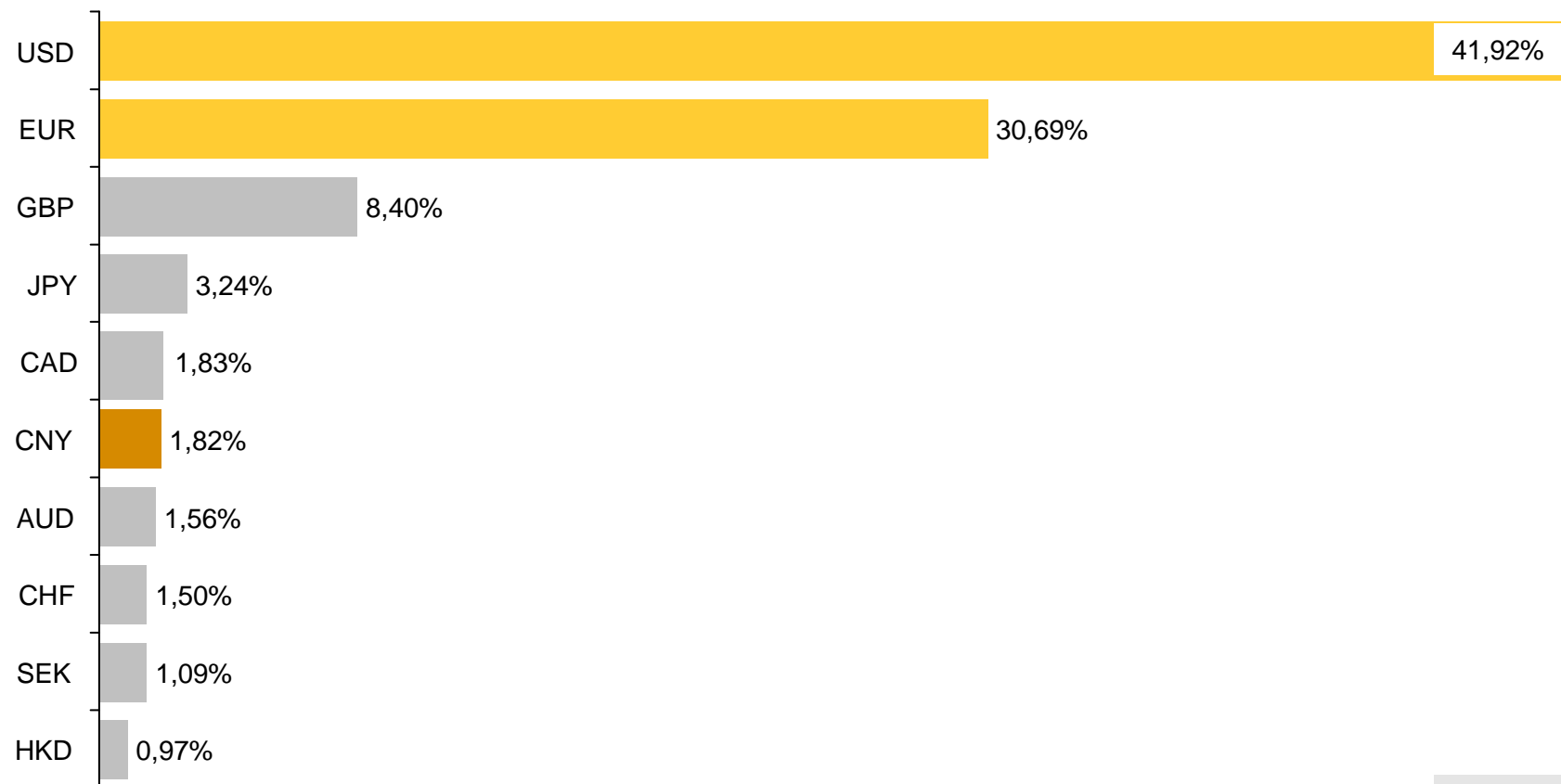


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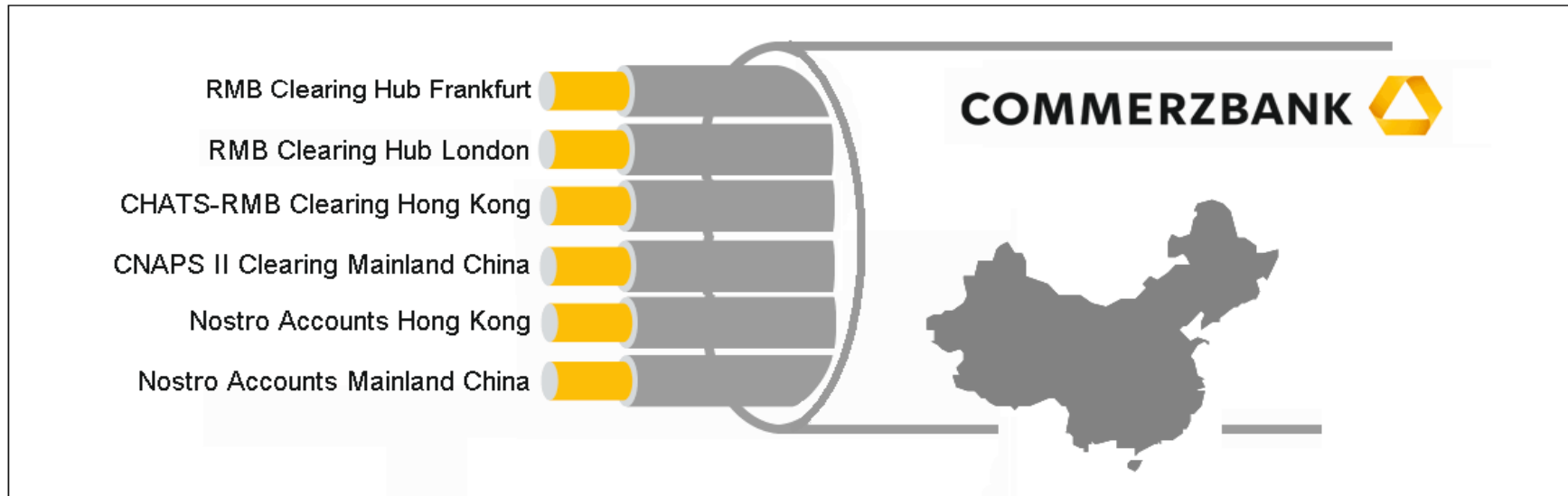
Services & Developments | The world's payments currencies

Customer initiated and institutional payments | Inbound + Outbound traffic | Based on value



Source: SWIFT RMB Tracker April 2016

Services & Developments | A full set of RMB settlement channels



... and ready to use a new channel that has just appeared on the horizon:

CIPS

- China's recently launched **C**ross-border **I**nterbank **P**ayment **S**ystem
- aims at substituting the existing patchwork system landscape to process RMB cross-border payments smooth and fast
- applies to SWIFT message standards, supports messages in Chinese and English

Services & Developments | Cut-off times for worldwide payment transactions

In general

- › The cut-off times apply to instructions by SWIFT and complying with Commerzbank's straight through criteria; they are valid for payments without conversion into another currency.
- › Instructions sent by media other than SWIFT are processed on a best efforts basis.
- › Commercial payment instructions must reach Commerzbank at times indicated below on the value date stated in the instruction. This value date represents the debit value, credit value may differ.
- › In Islamic countries Friday is no value day and no trading day.
- › Receipt of instructions one day before or early on value date ensures smooth transaction handling.

Services & Developments | Cut-off times for worldwide payment transactions in detail

Currency	FI Transfers	
AED	15.00 CET	VD - 1
AUD	15.00 CET	VD - 1
BGN	15:00 CET	VD - 1
BHD	15.00 CET	VD - 1
CAD	16.00 CET	VD
CHF	11.00 CET	VD
CNY / CNH	15.00 CET	VD - 1
CZK	13.00 CET	VD
DKK	11.00 CET	VD
EUR	16.45 CET	VD
GBP	16.00 CET	VD
HKD	15.00 CET	VD - 1
HRK	15.00 CET	VD - 1
HUF	14.30 CET	VD
ILS	15.00 CET	VD - 1

Currency	FI Transfers	
INR	13.30 CET	VD - 2
JPY	15.00 CET	VD - 1
KRW	15.00 CET	VD - 3
KWD	15.00 CET	VD - 1
LKR	15.00 CET	VD - 3
MXN	16.00 CET	VD
NOK	11.00 CET	VD
NZD	15.00 CET	VD - 1
PLN	12.45 CET	VD
QAR	15.00 CET	VD - 1
RON	15.00 CET	VD - 1
RUB	13.00 CET	VD
SAR	15.00 CET	VD - 1
SEK	11.00 CET	VD
SGD	15.00 CET	VD - 1

Currency	FI Transfers	
TND	15.00 CET	VD - 1
TRY	11.00 CET	VD
USD	17.00 CET	VD
ZAR	14.00 CET	VD
OTHER	15.00 CET	VD - 2

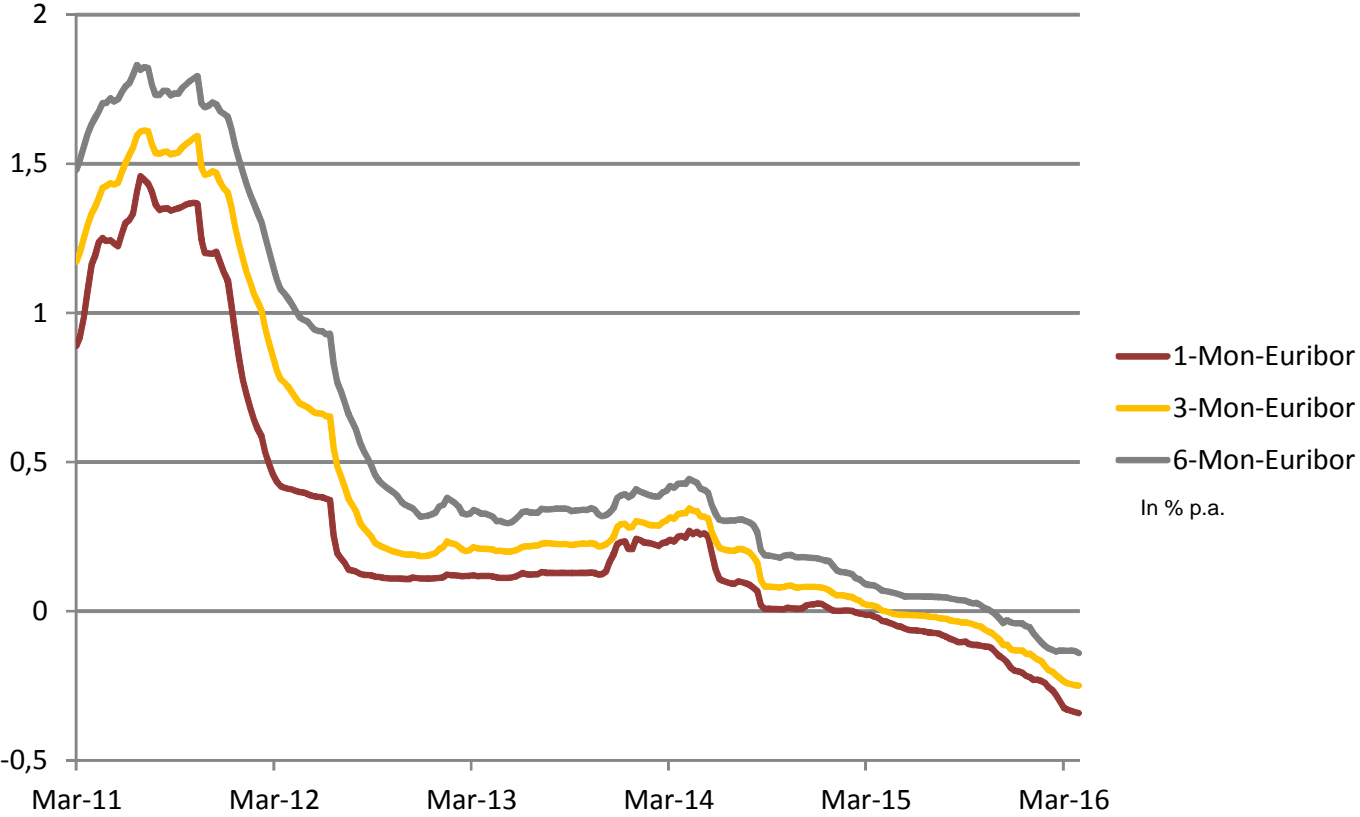
Currency	Book Transfers	
All currencies	18.00 CET	VD

VD = Value Date
-1, -2, -3 = -x Working Day(s)

All times refer to Central European Time (CET) and Central European Summer Time (CEST) – as applicable – and the receiving time at Commerzbank. Working Day means a business day in Germany.



Services & Developments | Interest Rates - Developments in Europe



Source: Bloomberg

Services & Developments | Effects from negative central bank rates

In the past, balances kept on current accounts were quite an attractive business proposition often used to bargain for better, i.e. cheaper, transaction prices. However, this view has changed quite drastically.

First, the ECB started rather modestly with an overnight deposit rate of -0,1% p.a. which had not too much effect on the market;

But after the last rather severe rate cut to -0,4% p.a. more and more banks are thinking about passing on at least a part of the negative interest rates to their clients.

However, nearly every European bank has to build up the capacity to calculate and claim negative interest rates first or to define and implement other approaches to pass on the fast building expenses coming out of liquidity kept for customers.



At Commerzbank, we are using a customer-group based approach which still offers a lot of individuality on whom and what to debit the so-called Deposit Facility Fee



Services & Developments | Countries claiming negative interest rates

Switzerland
 Danmark*
 Sweden
 Japan

Most recently

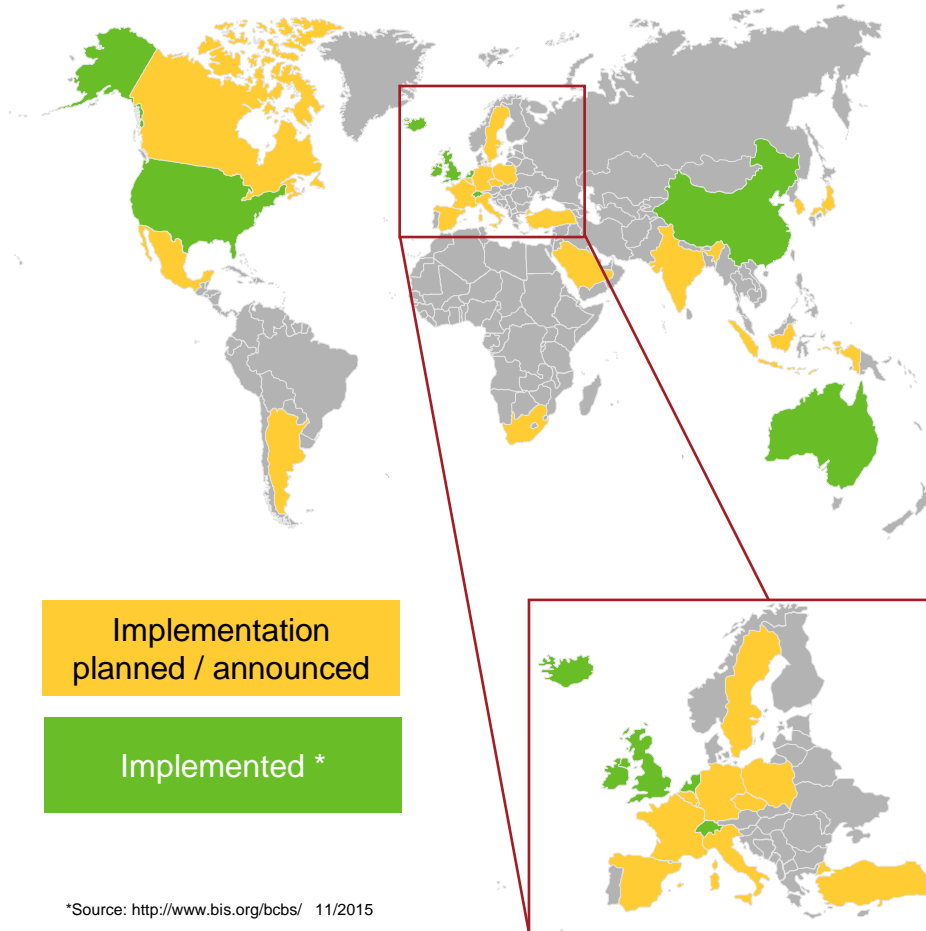
	Switzerland	Danmark*	Sweden	Japan
› Central Bank rate	› -0,75%	› - 0,75%	› - 0,50%	› - 0,1 %
› Individual conditions e.g. thresholds	› Yes – scaled in relation to the amount held	› No – charging for any amount on daily basis	› No – charging for any amount on daily basis	› yes
› Market range	› - 0,75 % bis - 1,0 %	› - 0,5 % to - 1,25 %	› From - 0,7 % to - 0,85 %	

* Country with the longest experience with „extremely“ high negative rates . since beginning 2015

Source own data + Updates (SWIFT)



Services & Developments | BCBS Rule 248 - intraday liquidity reporting



*Source: <http://www.bis.org/bcbs/> 11/2015

In its Publication 248 in April 2013, the Basel Committee on Banking Supervision (BCBS) mandates banks to comply with seven key intraday liquidity monitoring measures latest by January 1st 2017.

The so-called BCBS Rule 248 is aimed at creating transparency to see in how far a banks disposition deviates from its in-house liquidity. It contains three key obligations:

- › The obligation for each financial institution to monitor/build in real-time its cash position across accounts and currencies in order to meet its payments and settlement obligations
- › The obligation to manage and report liquidity position at a firm-wide level across branches and legal entities
- › The obligation to build historical information to support intraday liquidity modeling, liquidity forecasting and liquidity risks analytics.



Commerzbank supports financial institutions in fulfilling their reporting obligations by providing SWIFT reporting facilities including MT900/910.

Services & Developments | A full set of reporting capabilities

SWIFT Standard Reporting

	MT 950 <i>Statement Message</i>	MT 940 <i>Statement Message</i>	MT 941 <i>Balance Report</i>	MT 942 <i>Transaction Report</i>
Content	Closing available balance	Forward available balances		Displayed items according to pre-defined criteria
Delivery	End of Day or Week or at fixed time/day	Intraday up to 15 minutes intervals	Delivery triggered by pre-defined min. or max. account balance	
Addressing	Multiple supply and individual addressing			

+

**From October 2016:
Enhanced SWIFT Reporting facilities for intraday reporting purposes**

MT 900 / MT 910 for commercial payment and FI transfer turnovers. Individual thresholds can be defined per message type.

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