Market Practice Guidelines for the Settlement of International Payment Charges Version 1.0 August 2014

Note: Relevant regulations and any applicable legislation take precedence over the guidance notes issued by this body. These Guidelines represent an industry's best effort to assist peers in the interpretation and implementation of the relevant topic(s). The PMPG - or any of its Members - cannot be held responsible for any error in these Guidelines or any consequence thereof.

1. Introduction

The Payments Market Practice Group (PMPG) is an independent body of payments subject matter experts from Asia Pacific, Europe and North America. The mission of the PMPG is to:

- take stock of payments market practices across regions,
- discuss, explain, and document market practice issues, including possible commercial impact,
- recommend market practices, covering end-to-end transactions,
- propose best practice, business responsibilities and rules, message flows, consistent implementation of ISO messaging standards and exception definitions,
- ensure publication of recommended best practices,
- recommend payments market practices in response to changing compliance requirements

The PMPG provides a truly global forum to drive better market practices which, together with correct use of standards, will help in achieving full STP and improved customer service.

This document has three main sections:

- Market Practice Guidelines: Describes the guidelines that the PMPG proposes to the global payments community.
- Frequently Asked Questions: Addresses specific questions that have been raised to the PMPG in relation to the subject that is addressed in the document.
- Observations and Recommendations: Comments on the general impact of the guidelines and areas of further discussion.

The text starts by giving the background and contains a glossary at the end.
The PMPG will regularly review these guidelines, using the frequently asked questions and community feedback as input.

2. Background

In September of 2010 market practice guidelines were issued by the PMPG for the post-payment claiming process for charges resulting from cross border payments, including best practices for claims related inquiries. The market practice guidelines for post-payment claims applied only to cases for which no separate bilateral agreements exist.

New proposed guidelines for the process of settling charges for cross border payments incorporate guidelines for both the pre-payment of charges as well as for the post-payment claiming process. These new and updated guidelines only apply to cases for which no separate bilateral agreements exist. They address the below concerns and questions in the community and - more importantly - costs and customer experience issues:

- while the SWIFT User Handbook definitions for BEN/SHA/OUR charging codes remain constant, individual or some local practices have evolved substantially away from the legacy definitions
- ultimate responsibility for understanding local practices affecting a payment's charge code lies with the remitting bank
- an increasing number of financial institutions are making the necessary system enhancements to support the use of SWIFT MT 103, field 71G to pre-pay charges for cross border payments, but use of field 71G without preliminary agreement with the receiving institution on the amount of charges due can result in over or under payment of charges and related inquiries and charge adjustments
- the SWIFT MT n91 message or equivalent has been adopted by many financial institutions for post-payment claiming of charges; however, unauthenticated paper, fax and email claims remain in use
- adoption of standards for post-payment claims for charges remain inconsistent relative to the use of message types, timing and claim currency
- the industry has seen a substantial increase in claims for OUR charges, amendments, cancellations, repairs, investigations, etc.
- financial institutions and their customers can be uncertain of the process to address charges and claims
- financial institutions have seen a substantial increase in reconciliation challenges and customer service inquiries related to charges
- financial institutions must comply with regulations that mandate transparency as to charges that may be applied to certain types of cross border payments
- it is anticipated that greater transparency on charges will be mandated in future across a broader spectrum of payment types
- financial institutions face significant challenges in ascertaining the charges that will be applied by each bank in the payment chain, particularly when the payment crosses a border
- it has been estimated that the processing of a single post-payment claim amounts to about EUR12 including messaging, processing, reconciliation, and inquiry expense; the costs associated with the use of field 71G and prepayment of fees is estimated to be significantly less than EUR12

The PMPG believes that:

- cross border and correspondent relationships should be supported by a clear servicing agreement, including the settlement of charges related to cross border payments, in particular when a direct account relationship is established (for example, on a billing and reporting basis; using sender's and receiver's, charges fields on a pre-agreed single transaction basis). This is essential to streamline the process of settling charges, to avoid redundant processes, reduce expenses and avoid related inquiries and investigations
- the new and updated market practice guidelines - in the absence of different bilateral agreements - provide a standard methodology that will enhance the customer experience by clarifying, for the originating customer and bank, the method, purpose, types and currency of charges that are being claimed post-payment and the timing of said charges
- the market practices guidelines outlined herein will reduce enquiries between banks about charges, and enquiries internal to financial institutions between customer services and finance and reconciliation departments
- the new and updated proposed guidelines aim at streamlining processes and work and thus reduce cost in customer service and reconciliation departments by providing a clear cut process for settling charges
- the proposed market practice guidelines aim at reducing total operating costs by advocating pre-payment of charges when bilaterally agreed and by standardizing the post-payment claiming process to avoid redundant claims, narrowing the timeframes for claims and clarifying the currency in which claims can be made

3. Market Practice Guidelines (MPG) for the settlement of international payment charges

Post-payment claims for cross border payment charges:

MPG Charges Claiming Process #1: Charges should be claimed and not debited

In the absence of a separate bilateral agreement, payment charges related to the use of the OUR charging code should be claimed by the receiving bank from the bank that sent the payment instruction. The charges should not be deducted from the principal amount of the transaction, debited from the beneficiary account or charged to the sending bank in the transaction chain without submitting a claim, unless bilaterally agreed.

MPG Charges Claiming Process #2: Claims should be submitted on or after the transaction execution date with a single claim per transaction

Payment charges claims should not be presented before the transaction execution date. To ensure efficiency and to contain enquiries, the claiming bank should issue a single claim per transaction (and if needed, explicitly itemize the types of charges) except where national or regional agreement or regulation exist and in absence of a bilateral servicing agreement[1]. A bilateral servicing agreement is recommended, whenever possible in order to further streamline the charges claiming process (including rules for charges payment and reporting).

Also refer to the recommended claiming process described under MPG #4.

MPG Charges Claiming Process #3: Claims should be denominated in the currency of the payment

The payment charge should be denominated in the currency of the payment to mitigate currency risk and reconciliation issues, unless bilaterally agreed otherwise or prescribed by local or regional agreement or regulation.

MPG Charges Claiming Process #4: Claims should be made through MT n91 or equivalent message. Enquiries should be done through MT n95 or equivalent message

The SWIFT MT n91 message or equivalent should be used for claiming payment charges unless bilaterally agreed otherwise. Claims should be authenticated and thus paper, telex or faxed claims are strongly discouraged.

Recommended process:

- The MT n91 should be sent as soon as possible and preferably not later than 30 calendar days after the transaction execution date[2]
- The receiving bank should act within 15 days of receipt of the MT n91 or equivalent
- An MT n95 or equivalent should be used to query an MT n91 for further information or to contest the claim
- An MT n96 should be sent in response to the MT n95
- Each MT n91 should represent a single claim for a single transaction unless bilaterally agreed
- As a guiding principle no charges should be applied to an MT 202 or equivalent that is used to settle a charges claim, for example, no deduction from principal should be applied to a MT 202 settlement by any bank in the transaction chain; a non-STP charge should not be applied to a MT 202 payment settling an OUR charge

Concerning the use of field 71B, Details of Charges in the MT n91: in addition to the reason code “COMM” published in the SWIFT User Handbook, 6 additional codes may be used in relation to claims for MT 1xx and MT 2xx messages:

Code	*Definition of Code*
OURC	OUR charge - Charge for receipt of a customer payment (1XX type payment) with charging option OUR in Field 71A.
NSTP	Non-STP charge - Charge for a payment that required an intervention during processing.
AMND	Amendment charge - Charge for changes made to a payment order following a request from (original) sending bank or as a result of receiving amended information from (original) sending bank.
INVS	Investigation charge - Charge for an investigation or request for information required to

[1] A bilateral servicing agreement could for example stipulate to use periodical versus transactional invoicing.
[2] Subject to community specific regulatory constraints.

	complete payment processing.
CLEF	Clearing charge - Charge for standard processing of financial institution type transfers.
CANF	Cancellation charge - Charge for cancellation of payment.

MPG Charges Claiming Process #5: Aged claims

Claims submitted in excess of six months after the transaction execution date should be considered aged-out[3] and will be paid at the discretion of the paying bank unless a bilateral services agreement exists.

Pre-payment of cross-border payment charges:

MPG Pre-payment Charges Process #6: Use of SWIFT MT 103, field 71G to prepay charges should be bilaterally agreed

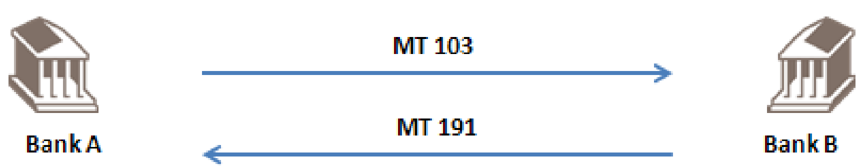
Payment charges, for example, related to the use of the OUR charging code by a sending financial institution, may be pre-paid using SWIFT MT 103, field 71G. Use of this field should be supported by a preliminary agreement between the sending institution and the institution receiving the OUR charge code as to the amount of charges due to avoid under or overpayment of charges and subsequent related inquiries and charge adjustments.

4. Post Payment claims Process flow - Example

Note**:** In this example no direct account relationship between Bank A and Bank B exists. Below process is recommended where no other bilateral servicing agreement exists to streamline the process and charges/interest or other expenses are previously unknown to the Receiver.

MT 103 and MT 191

Bank B receives a customer transfer (MT 103) from Bank A that was sent with charging option OUR. Bank B sends an MT 191 to Bank A, requesting payment of 10 USD processing charges. As Bank A used a non-STP free text field, Bank B also claims a non-STP charge of 15 USD.



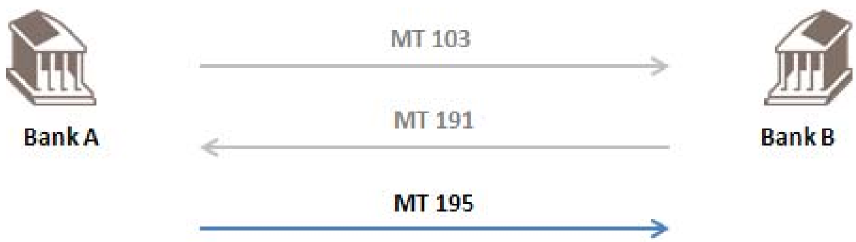
Message type	191

[3] Subject to community specific regulatory constraints.

Transaction reference number	:20:948LA
Reference of the original MT 103	:21:516722/DEV
Currency code/amount of charge	:32B:USD25,
Reason for charge	:71B:/OURC/USD10, /NSTP/USD15,

MT 195

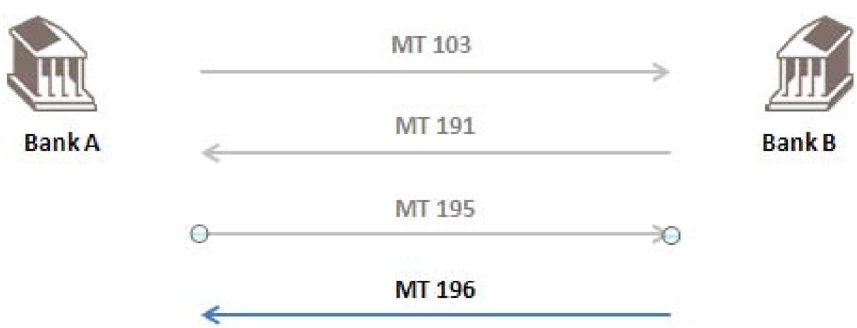
Bank A would like to know the reason for the non-STP claim and sends an MT 195 query message to Bank B.



Message type	195
Transaction reference number	:20: 516722/QUERY
Reference of the MT 191	:21:948LA
Query	:75: Please explain the NSTP claim

MT 196

Bank B replies to Bank A with an MT 196 to explain that the non-STP claim is related to inappropriate use of field 72.

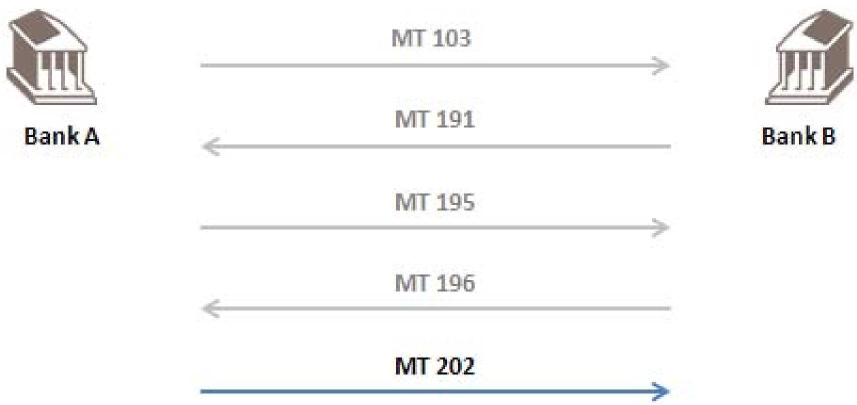


Message type	196

Transaction reference number	:20:989LA
Reference of MT 195	:21:516722/QUERY
Answer	:76: NSTP claim for inappropriate use of field 72

MT 202

Bank A accepts the reason for the NSTP claim and pays the charges to Bank B via an MT 202.

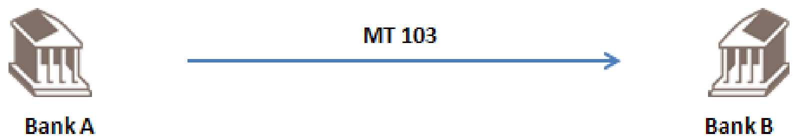


Message type	202
Transaction reference number	:20:516722/PAY
Reference of MT 191	:21:948LA
Value date, currency and amount	:32A:100429USD25,
Beneficiary institution	:58A:BNKBCCLL

5. Pre-Payment Charges Process flow - Example

Note: In this example no direct account relationship between Bank A and Bank B exists. Below process requires bilateral agreement to avoid under or over paying charges, related inquiries and charge adjustments.

Bank A and Bank B have agreed that Bank A will pre-pay an $8 charge for OUR processing at Bank B using SWIFT MT103, field 71G. Bank A adds the agreed upon $8 charge to the interbank settlement amount in field 32A, indicates the charge code OUR in field 71A and indicates the $8 amount in field 71G of their MT 103 payment to Bank B. Bank B will not need to make a claim upon receipt of the MT 103 and Bank A will not need to process and pay a claim to Bank B, thereby streamlining payment of charges and avoiding the costs associated with messaging, processing, and reconciling a post-execution claim for charges.



Message type	103
Sender's Reference	:20:DRS-060553
Bank Operation Code	CRED
Value Date/Currency/Interbank Settled Amount	:32A:140428USD108,00
Currency/Instructed Amount	:33B:USD100,00
Ordering Customer	:50F:/310141014141 1/MR ORDERING 2/VOORTREKKERSTRAAT 25 3/NL/ROTTERDAM
Beneficiary Customer	:59:/875645327 MRS BENEFICIARY 350 VISTA COURT COLUMBUS OHIO - US
Details of Charges	:71A:OUR
Receivers Charges	:71G:USD8,00

6. Frequently Asked Questions

Q1: Do the market practice guidelines apply to intra-European Union payments and SEPA payments?

A: No, the European Union has its own specific regulation and SEPA is a regional model of its own right. For more detailed information please refer to the European Banking Industry – Payment Services Directive Practitioners Panel note on the *Issuing of charge codes by sending banks* posted on the website of the Euro Banking Association.

Q2: Do these market practice guidelines replace the grouping of claims sent on a periodical basis?

A: No, as stated above the market practice guidelines apply only when no different preliminary agreement exists. Any (bilateral) agreement to group claims and invoice counterparties, for example, on a monthly or quarterly basis, supersedes the above market practices to claim charges on an individual basis.

Q3: Must the MT n91 be sent on an individual, per transaction basis?

A: No, counterparties may agree to group claims on a periodical basis instead of on a per transaction basis. However, even if claims are grouped, it is advised that the individual claims be structured in such a way to enable the automated processing of the individual claims. A file of grouped claims could, for example, be composed of individual MT n91s. *Also refer to Q2.*

7. Observations and Recommendations

The PMPG is not a regulatory body and cannot enforce any of the guidelines. It can only point out practices which, when followed properly, are beneficial to the payments community.

Above and beyond the guidelines stated above, the community can use below observations and recommendations to better deal with the operational impact around charging practices and claims:

- End-to-end charging code coherence: We believe that for purposes of end-to-end transparency the best practice is that payment charging codes BEN, SHA and OUR remain unchanged from the ordering to the beneficiary customer. The charging code generally is agreed at the outset and represents the instructions of the originator of the transaction and potentially the commercial terms agreed between commercial or financial parties. When bilateral services agreements exist the use of payment charging codes BEN, SHA and OUR, should be in coherence with the agreement and the relevant definitions. In some cases local rules and customs may take precedence and inventory of these indigenous standards should be considered. Ultimate responsibility for understanding indigenous standards affecting a payment's charge code lies with the remitting bank.

- In-market practice charging codes: We have observed that in some jurisdictions the first bank which processes the inbound cross border transaction applies the code and thus processes a charge and all subsequent banks in the chain to the indigenous beneficiary pass on the transaction as 'Free' with exception of the beneficiary's bank where a bilateral services agreement may exist. We believe that charging codes should not be changed between the first bank and the beneficiary's bank for in-market transactions where the beneficiary resides in the same jurisdiction. In some jurisdictions local rules and customs may take precedence.

- Migration to serial payments: We have observed that as banks opt to pay serially the possibility that the OUR charge code is not conveyed forward may increase, especially when the in-country clearing systems do not support the conveyance of the OUR charge code or its equivalent. This may result in the beneficiary being charged when the intent was to ensure that all charges were for the ordering customer. Successful provision of fee transparency will require further industry discussion to evaluate the effectiveness of current charge codes in light of differing market practices and local clearing system capabilities.

- Non-STP practice: We have observed that some institutions make non-STP claims based upon proprietary STP guidelines and/or upon regulations that apply to a specific jurisdiction other than the jurisdiction in which the payment was initiated. Proprietary STP guidelines should be disclosed in an institution's terms and conditions. Non-STP claims should be based upon SWIFT standards for the message type in question. Regulations which provide for non-STP claims on payments within a specific jurisdiction should not be applied to payments that are initiated outside of that jurisdiction.

- Debiting of unrelated nostros: We have observed that some institutions debit a nostro account held with them for cross border payment charges unrelated to the transactions occurring within the nostro account. Debiting a nostro account for fees unrelated to the nostro account and its activity should be bilaterally agreed.

- We believe that the use of 71G should be adopted globally as a best practice; that pre-payment of a Claim is a viable and progressive solution to reduce the cost of claims processing and enhance transparency for the remitter and beneficiary.

This document and other information is available on the PMPG website:

www.pmpg.info