



Market Practice Guidelines for use of the MT 202 COV¹ ***(Version 3.0 May 1, 2017)***

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.

¹ Whenever the MT 202 is mentioned in this document, it should be read as MT 202 **and/or MT 205**. Similarly, whenever MT 202 COV is mentioned, it should be read as MT 202 COV **and/or MT 205 COV**.

2 Background

In response to recommendations made by the Wolfsberg Group² and the Clearing House in 2007 to improve the transparency of Direct and Cover Payments, and with the consensus of the SWIFT community, SWIFT has defined a variant of the MT 202, the MT 202 COV, that was implemented for general use in the 2009 Standards Release (Access the SWIFT MT 202 COV documentation via [My Standards here](#). The use of this variant will be determined by the sending bank based on the initial transaction type.

In the 2009 Standards Release the MT 202 COV scope is defined as follows:

*This message is sent by or on behalf of the ordering institution directly, or through correspondent(s), to the financial institution (account servicer) of the beneficiary institution¹. **It must only be used to order the movement of funds related to an underlying customer credit transfer that was sent with the cover method. The MT 202 COV must not be used for any other interbank transfer. For these transfers the MT 202 must be used.***

This scope statement should be read carefully by everyone using MT202 COV as it drives considerations such as:

- no limitation to specific currencies or regions, the MT 202 COV is universal,
- it is specific to cover a single customer credit transfers (MT 103), the MT 202 COV is not an alternative message type but the exclusive method to cover third party payments, it is not to be used to cover any other message type
- the MT 202 is also a valid message for interbank transfers, but must not be used to cover the funds related to an underlying customer credit transfer.

The PMPG acknowledges that, in some markets, the serial payment method (as defined in the SWIFT User Handbook) is an accepted alternative to the cover payment method. The scope of this document is not to address the serial method².

In July 2016 the Bank for International Settlement (BIS) – Committee on Payments and Market Infrastructures (CPMI) discussed the topic of MT202COV in its technical report on Correspondent Banking³ and acknowledged that “*according to information received during the consultation process of this report, clearing systems limitations as well as time zone considerations necessitate that both the serial MT 103 and the cover MT 202 COV methods remain relevant, [...]*”. The CPMI invited the Wolfsberg Group as well as the PMPG “*to review their principles governing the use-cases for payment messages, such as the PMPG’s market practice guidelines and white papers.*” Responding to this request the PMPG is publishing version 3.0 of the MT202 COV Market Practice Guidelines.

¹ Beneficiary institution does not receive the MT202COV directly but is advised via MT910 of the credit.

² The reader should also consult the PMPG FATF 16 Market Practice Guideline:
<https://www.swift.com/about-us/community/swift-advisory-groups/payments-market-practice-group/document-centre/document-centre>

³ <http://www.bis.org/cpmi/publ/d147.htm>

3 Market Practice Guidelines (MPG) for MT 202 COV

MPG MT 202 COV #1: Business Principles

The MT 202 COV is a variant of the MT 202. Therefore, the MT 202 COV is also an inter-bank financial institution transfer. Sequence B of the MT 202 COV is a copy of a selection of fields of the underlying MT 103 customer credit transfer. Its fields should remain unchanged as the message passes through the banking chain. Use of Sequence B by the intermediary institutions is meant to be used for regulatory screening, including potential FATF recommendation 16 checks if required by local regulations. The MT202 COV is not an alternative message type for MT103s.

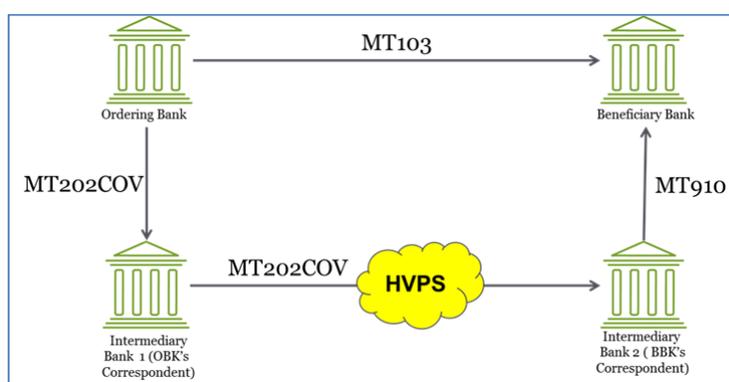


Figure 1: Direct (MT103) and cover (MT202 COV) message flow

Note: The beneficiary institution does not receive the MT202 COV but only a credit advice (MT910). In some cases the HVPS might use an equivalent message if SWIFT messages are not natively supported.

Existing commercial relationships between the Sender and Receiver should not change due to the usage of the MT 202 COV.

MPG MT 202 COV #2: Timing of Screening

Efforts should be made to avoid payment delays associated with regulatory screening by the receiving institution and should take place upon receipt of the payment. Suspect hits might require further investigation by the financial institution's compliance department or government agencies to differentiate between real hits and "false positives". Screening upon receipt allows maximum time for remediation and minimize the possibility of delays.

Note: Additional screening might be required depending on: local regulatory standards, updated lists, and/or a time lag between the moment the payment is received and the actual execution of the payment.

MPG MT 202 COV #3: Operational risk

A delay in processing of the MT 202 COV should be advised as quickly as possible preferably with an MT296 to the previous financial institution in the cover payment chain, unless prohibited by law. On receipt of this advice the ordering institution on its turn should advise the beneficiary institution of the delay preferably with an MT 196⁴

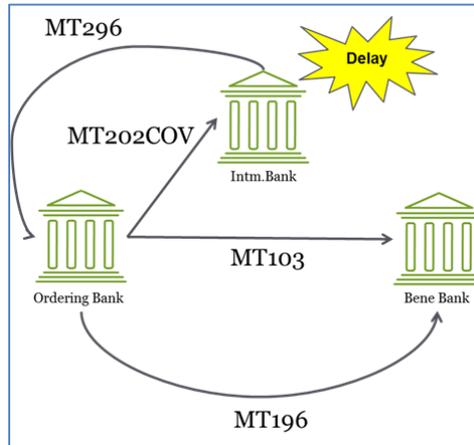


Figure 2: Notification of Delay

⁴ In some cases the market practice might be to use a MT199 or MT299

MPG MT 202 COV #4: Multiple Credit Transfers

An ordering institution must avoid covering multiple underlying customer credit transfers -be it an MT 102 or a file made up of several MTs 103- with a single MT 202 COV.

MPG MT 202 COV #5: Clearing systems

Clearing houses and Value Transfer Networks should be able to process the MT 202 COV or any equivalent format. If a clearing system is not able to handle the additional information in a cover message, the local user community will have to decide how to handle this additional information.

MPG MT 202 COV #6: Meaningless or incomplete information

An ordering institution should ensure that cross-border wire transfers are accompanied by accurate and meaningful information on the ordering and beneficiary customer to meet FATF 16 requirements. This should also apply to field 50a Ordering Customer and field 59a Beneficiary Customer in Sequence B of the MT 202 COV. A guideline to the formatting these fields is provided in the PMPG's [Market Practice Guidelines for use of fields 50a Ordering Customer and 59a Beneficiary Customer to comply with FATF Recommendation 16](#) ⁵

Ordering party and beneficiary information in the MT202 COV sequence B must be the same as in field 50a and 59a of the related MT103

MPG MT 202 COV #7: Use of BICs to identify financial institutions

Whenever a financial institution BIC is available, the ordering institution should use option A of SWIFT MT fields to identify the financial institution and should strictly avoid the use of option D. This should also apply to all financial institution fields in Sequence B of the MT 202 COV as the provision of structured information on all financial institutions part of the payment chain will enable easier and faster screening by (intermediary) financial institutions.

MPG MT 202 COV #8: Role of intermediaries

Intermediary institutions' responsibility is to screen the message against regulatory filters as required by local law applicable to the intermediary institution and to pass on the information unaltered in Sequence B to the next institution. The originating institution is the accountable party for determining the correct message type for the transfer. Thus, a misuse of message types by the originating institution, in particular the use of the MT202 instead of the MT202COV, cause a problem for all subsequent banks, and is not in line with SWIFT rules. Furthermore, it could also constitute a breach of FATF16 requirements. In any case, if the intermediary determines that a wrong message type was used they have the right and in some jurisdictions the obligation to reject or inquire in line with FATF 16 requirements.

Note: In the case an intermediary is requested to send an MT202 COV as an advice to another bank in the payment chain that is not the beneficiary bank any subsequent settlement payment generated from the original MT202COV should be a MT202COV as well with an unaltered Sequence B.

⁵ <https://www.swift.com/about-us/community/swift-advisory-groups/payments-market-practice-group/document-centre/document-centre?category=6621>

MPG MT 202 COV #9: Claims & compensation

The MT 202 COV process should not generate a new claims process that differs from the existing processes for MT 103.

Note: In most cases today a delay in MT103 processing, due to regulatory screening, does not result in a claim unless a real use of funds exists by the intermediary institution.

MPG MT 202 COV #10: Honoring of cut-off times

The MT 202 COV should follow existing cut-off times for commercial payments in RTGS systems and should not to be used during time periods reserved for interbank settlement unless it has been pre-agreed between the sending and receiving bank or local market practice.

MPG MT 202 COV #11: Return of Funds

In the case that the intermediary bank is the correspondent for the ordering bank and the beneficiary bank funds can be returned by simple debit authorization across the books of the common intermediary bank.

In the case that an intermediary bank or the beneficiary bank has to return the funds to the ordering bank without a common intermediary, it is strongly recommended to use MT202 COV by the first initiating party of the return to preserve transparency within the interbank chain. The first 6 character of line 1 of field 72 in sequence A should include the sequence /RETN/.

Note: The return can take place via intermediaries or clearing systems.

4 Frequently Asked Questions

Q1: Does the usage of the MT 202 COV create issues by delaying cover payments due to screening (for example missed cut-off time) and result in late payments to beneficiaries?

A: The MT202 COV cover payment format does include additional data elements (compared to the MT202) within the screening processing itself and therefore the likelihood increases that an intermediary institution needs to perform additional steps to clear “false positives”. Missed cut-off times cannot be ruled out completely. Intermediary institutions should follow the best practices outlined in this document and minimize the impact of the regulatory screening process. Ordering institutions should follow best practices in populating ordering and beneficiary customer fields to ensure that intermediary institutions have sufficient details to screen the payments in an expedient fashion (**MPG MT 202 CO#6**).

Q2: Does the regulatory screening requirement of the MT 202 COV create the possibility of a delay in the execution of cover payments and could any party in the chain benefit from float?

A: Like any other payment decision the debit to the sending bank’s nostro/vostro account and the credit to the clearing account should take place on the same value date. The screening process may result in a delay of the execution of the payment, but a delay should not be the result of any deliberate action. No party should be unjustly enriched due to the AML/CFT control process.

Q3: Does the visibility of ordering and beneficiary customers and commercial details impact competition and give unfair business advantage to intermediary institutions?

A: The additional data in the MT 202 COV should only be used for regulatory screening and AML monitoring purposes and not for commercial evaluation. The use of the MT 202 COV does not change the obligations of the parties in the payment chain. Existing regulations and contractual relationships that protect data confidentiality still apply with the new message.

Q4: Will additional charges be applied to MT 202 COV as the information of the MT 103 will be mirrored in the message?

A: As per **MPG MT 202 COV #1** the MT 202 COV is not changing the nature of the MT 202. It remains an inter-financial institution transfer. Existing commercial relationships do not automatically change due to the usage of the MT 202 COV and remain as usual subject of bilateral correspondent relationships. As the MT 202 COV remains an inter-financial institution transfer, no charges should be deducted from the principal amount.

Q5: Is it possible that a remitting bank runs the risk of being caught up in territorial issues, such as boycotts, trade embargoes, watch lists etc. which would be outside their jurisdiction?

A: Banks should be aware that not only the local regulations but all regulations and sanctions relevant to the transaction chain and currency may apply. The risk of a delay or seizure of a cover payment has always existed. The PMPG believes that the MT202 COV is not changing the responsibilities banks have to be aware and conversant in issues of regulation and legislation impacting their operations and activities.

Q6: A difficult situation may occur depending on the location of the sending and the receiving institutions especially in circumstances where the sending institution's processing day is over when the receiver performs the screening and advises potential delays. How can this be avoided?

A: Differences in processing days are a fact in cross-border payments. Intermediary institutions can mitigate this risk by prioritizing their processing based on the location of the beneficiary institution and use of the notification guideline outlined above. Institutions should regularly review any special instructions that they might have given to their correspondent banks regarding the processing of MT 103, MT 202 COV and MT 202 instructions.

Q7: How should the MT 196/296 be structured to notify about a delay?

A: To allow a certain level of automation of the notification process a standard keyword should be used to advise a delay of the cover payment. Specific reason should not be given. One option for formatting the MT 196/296/MT 299 could be:

Sender: ABCBUS33XXX
Receiver: XYZWGB22XXX

20: Reference of the MT 196 / MT 296
21: Reference (field 20) of the MT202 COV
message that is delayed
76: /Delay/
77A: Cover payment is delayed
11S:202
YYMMDD
79: MT202 COV

Q8: Should intermediary institutions stop the processing of an MT 202 if they suspect that it is a cover payment?

A: As **MPG MT 202 COV #8** states the ordering institution is accountable for determining the correct message type to be used. However, the intermediary/correspondent bank is accountable for the types of transactions it allows to traverse the account they offer as a Nostro service provider. On this basis (as mentioned in MPG MT 202 COV #8), the intermediary has the right and in some jurisdictions the obligation to stop the processing and reject the payment in this scenario.

Q9: An intermediary institution receives an MT 202 that quotes a reference in field 21. Can the intermediary institution conclude that this should have been a MT 202 COV?

A: No, as field 21 is not restricted to reference field 20 of an MT 103 but can, for example, reference a common reference in an MT 300 Foreign Exchange Confirmation, a reference to a Pay-In Schedule in the CLS community or any other reference that has been agreed between counterparties for operations different from cover payments.

Q10: If the beneficiary institution has credited the beneficiary's account based on the MT 103 and the covering funds are frozen by an intermediary institution due to a sanction against any party in the payment chain what is the recourse of the beneficiary institution?

A: Crediting a beneficiary's account based on the receipt of an MT 103 without receipt of the cover payment is a credit policy decision. Each institution has deployed a process that has been approved by the internal risk committees; the risk being clearly with the beneficiary institution. Policies should be reviewed on a regular basis as part of the MT 202 COV handling to ensure a proper reflection in internal credit risk policies.

Note: Only the entity whose funds are frozen can apply to the appropriate government agency for an unfreezing of funds.

Q11: Can non-STP charges be applied to fields in Sequence B of the MT 202 COV?

A: As highlighted in **MPG MT 202 COV #1** Sequence B exists only to facilitate the regulatory screening process, together with potential FATF 16 checks, but is not relevant for processing the underlying funds transfer. However, in **MPG MT 202 COV #6&7** it is recommended to provide structured information to enable easier and faster screening of the information.

Q13: Is the MT 101 impacted by the use of the MT 202 COV?

A: The MT 101 is not used in a direct and cover payment process and is therefore not impacted by the MT 202 COV.

Q14: Can the intermediary institution in case of a multi-correspondent chain forward the screening results to the next bank in the chain to speed up the review process?

A: Each Institution is responsible for their screening process and therefore the bilateral sharing of information will not expedite the process. Furthermore, no automated processes exist to share screening results that would need to be handled manually.

Q15: How to cancel an MT 103 for which cover has been provided by a separate MT 202 COV?

A: The principles on how to cancel an MT 103 sent with the cover method are documented in the SWIFT Usage Guidelines.

Q16: We currently process the MT 202 with the name and address of a fund manager in Tag 58 using Option D and with detailed reference of the investment fund in Tag 72. The fund manager is typically an investment bank type institution and we treat them as a financial institution. Since the nature of the transaction is the movement of funds with an underlying customer (which is the fund) credit transfer (although an MT 103 is not generated), should we use the MT 202 COV? Or can we assume that MT 202 COV is subject to information available on Tag 59 (and Tag 50) of an MT 103 and that individual usage of MT 202 COV is not in the scope of the new message type?

A: Individual usage of the MT 202 COV is not in scope of the message. As long as the underlying transaction justifies the use of an MT 202 as opposed to an MT 103 today, the continued use of the MT 202 is possible assuming that all parties in the message fulfill the MT202 SWIFT requirements for Financial Institutions. However, for straight-through-processing reasons the MT103 is still recommended. Furthermore, although fund managers may potentially be treated as financial institutions, this cannot automatically be considered an FATF 19-out-of-scope bank-to-bank payment for their own purpose. Accordingly such transactions may require full details of both, the originating party and the beneficiary party, making the use of the MT202 not recommended.

Q17: Although we do not use SWIFT for sending files of individual remittance details to our correspondent, we send cover via MT 202 for currency clearing. Should we send an MT 202 COV to our currency clearing agent while the use to cover multiple payments is not recommended by the PMPG?

A: The cover payments practice where an MT 103 is sent with a separate covering MT 202 COV is globally recognized. Treasury payments as described above are bilaterally agreed clearing mechanisms that fall outside the global cover payments practice that has been addressed with the creation of the MT 202 COV. It is advised to discuss the clearing of these payments directly with your clearing agent.

Q18: Can the content of sequence B be limited to the mandatory fields as described in the user handbook or must sequence B reflect the complete content of the underlying MT 103?

A: The complete content of the MT 103 should be mapped into sequence B. The user handbook mentions for each of the optional fields that in case *the field was present in the underlying customer credit transfer message that was sent with the cover method, then the field must be present in sequence B of the MT 202 COV.*

Q19: Is the intermediary institution expected to validate the content of field 50a Ordering Customer in sequence B of the MT 202 COV against FATF 16 requirements (i.e., contact to the sender of the MT 202 COV in case of incomplete information)?

A: The intermediary institution's obligation is to pass on the information they receive in the MT 202 COV and screen the contents against the respective sanction lists.

Depending on the transposition of FATF 16 into local regulation this obligation may be extended to perform a respective completeness check of the originator and beneficiary information in sequence B of the MT202COV.

Q20: The SWIFT User Handbook states that the MT 202 COV must not be forwarded to the beneficiary financial institution for reporting purposes. Are there exceptions to this rule where the MT 202 COV can rightfully be sent to the beneficiary financial institution?

A: The MT 202 COV might indeed be sent to the beneficiary financial institution if it acts as a receiving participant in a central clearing system, for example, through a SWIFT FIN Y-Copy based system. However, in this case the MT 202 COV constitutes a settlement message *sent* directly to the beneficiary financial institution and not a message *forwarded* for reporting on a transaction, in which case the MT 910 should be used.

5 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. The PMPG recommends that financial institutions work closely with their regulators to highlight the impact that the MT 202 COV has on the efficiency of the cross-border payment process.

Above and beyond the guidelines stated above, the community can use below checklist to validate the implementation and better deal with the operational impact of the MT 202 COV:

1. Banks should make sure that sufficient automation and capacity exists to support the increased need for screening.
2. To anticipate potential issues, the ordering institution of an MT 202 COV should scan the payment against the sanction lists of its jurisdiction, and, if possible, against sanctions lists that are relevant to the entire payment chain of the payment instruction.

6 GLOSSARY

Definitions

AML/CFT: *Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT)*

False Positives: *A false positive means that the regulatory screening process claims a positive match against a sanction list, when that is not actually the case.*

Regulatory Screening: *For the purposes of this document, any activity of a financial institution to scan the parties and the remittance details, as well as the sender to receiver information in a payment transaction, against a set of sanction lists provided by law enforcement and regulatory agencies in relevant jurisdictions, and determine if the requested payment instruction can be executed or not.*

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

www.pmpg.info