FEBRUARY 2024

Cover Payments

Market Practice Guidelines - Version 4.0

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Payments Market Practice Group

The Payments Market Practice Group (PMPG) is an independent body of payments subject matter experts from Asia Pacific, EMEA 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 straight-through-processing and improved customer service.

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1. Introduction

The Cover Payment document was the first Market Practice Guideline published by the PMPG in 2008. Following several updates, version 3.0 was published in 2017. Significant developments have been in motion since 2017 - these could be summarized as:

- a general trend towards real time
- introduction of sectoral sanctions
- improved transparency by adopting Swift gpi
- implementation of ISO 20022 messages.

The introduction of ISO 20022 creates the need to review existing Market Practice Guidelines and adjust to make them fit for purpose in the ISO 20022 world.

In this document, we will use the term *Financial Institution Credit Transfer (COV)* or *FI CT (COV)* for short to mean MT 202 COV and/or MT 205 COV and/or pacs.009 COV.

When a recommendation or reference is made that pertains only to a specific implementation of the FI CT (COV), the document will reference the specific message type, such as MT 202 COV/MT 205 COV or pacs.009 COV.

In addition to the change in message format, the Swift community is moving away from a message-processing model to the end-to-end transaction orchestration with the transaction copy concept that will be implemented in a new infrastructure referred to as the Swift Transaction Manager Platform (TM). The Swift TM will provide the industry with more visibility into the underlying transaction flow and may reduce the use of direct and Cover in favor of Serial payments.

This document intends to provide further awareness over issues for those communities that continue to use the Cover method within established risk boundaries.

The important industry issues highlighted in this document include:

- Heightened awareness over the impact of the 2019 Singapore court case (*see page 8*) on direct and Cover payments
- Need to support two different legal interpretations of direct and Cover messages. One implied contract model and second, the direct as an advice
- An existing practice in some communities of a MT 202 as a direct message that is Covered by a MT 202 core.

1.1 Background

In response to recommendations made by the Wolfsberg Group[1] and the Clearing House in 2007 to improve the transparency of Direct and Cover Payments, and with the consensus of the Swift community, Swift defined a dedicated message to support Cover payments - 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.

[1] [Home - Wolfsberg Group (wolfsberg-group.org)](#)

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 institution. **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.*

***Note:** Beneficiary institution does not receive the MT 202 COV directly but is advised via MT 910 of the credit.*

This scope statement should be read carefully by everyone using MT 202 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 transfer (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 most commercial payments are settled using the Serial payment method (as defined in the Swift User Handbook) as an alternative to the Cover payment method.

The scope of this document is not to address the Serial method[2]. Improvements in speed of settlement through Swift gpi may lead to a further growth in the Serial method over Cover payments. In the meantime, this document is provided for the benefit of communities that continue to use the Cover method within their recognized risk boundaries.

In July 2016, the Bank for International Settlement (BIS) Committee on Payments and Market Infrastructures (CPMI) discussed the topic of MT 202 COV in its technical report on Correspondent Banking 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 had published version 3.0 of the MT 202 COV Market Practice Guidelines.

A new version (version 4.0) of these guidelines becomes necessary as the industry is in the process to migrate all payment messages to the new ISO 20022 standard.

It should also be noted that in some markets, banks may send a MT 202 message as Cover of a direct cross-border MT 202 Financial Institution transfer. The driver for this is often, similar to Cover payments for Customer Transfers, to provide adequate notification to the beneficiary bank

[2] The reader should also consult the PMPG FATF Recommendation 16 Market Practice Guideline on the PMPG website – www.pmpg.info

that funds are being sent through the respective Intermediary Agents, enabling that bank to position the expected incoming funds with their treasury so that the funds can be applied with good value to the beneficiary institution.

This settlement method is rather an exception than an established market practice, however, it must be mentioned in the document for the sake of completeness.

1.2 What happens to Cover messages when ISO 20022 is introduced?

In ISO 20022, the Cover message is not a dedicated message like the MT 202 COV but is identified via a specific sub-element in the pacs.009. When a pacs.009 is used as a Cover message, the **Underlying Customer Credit Transfer** complex element is present[3].

The **Underlying Customer Credit Transfer** complex element contains some elements of the underlying pacs.008 that is being Covered by the pacs.009.

In this document, we refer to a pacs.009 that has the Underlying Customer Credit Transfer complex element present as a *CBPRPlus-pacs.009.001.08_COV_FinancialInstitutionCreditTransfer* (pacs.009 COV).

CBPR+ has defined a dedicated Usage Guideline for the pacs.009 when used as a Cover.

A new dedicated Usage Guideline of the pacs.009 has been defined and is formally referred to as *CBPRPlus-pacs.009.001.08_ADV_FinancialInstitutionCreditTransfer* (pacs.009 ADV). This variant with the settlement method set to 'COVE' must be used as a direct message advising the Cover to be received by a pacs.009, and not with a pacs.009 COV[4].

This solution was introduced late in the development of the CBPR+ Guideline and may need to be revisited in the future if the community determines that a dedicated direct advice message will be more appropriate.

2 Market Practice Guidelines for FI CT (COV)

MPG FI CT (COV) #1: Business Principles

The FI CT (COV) is a specific use case of the FI CT. Therefore, the FI CT (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 provide transparency and enable regulatory screening, including potential FATF Recommendation 16[5] checks if required by local regulations.

The MT 202 COV/MT 205 COV is not an alternative message type for MT 103s.

The **Underlying Customer Credit Transfer** element of the pacs.009 COV is a copy of a selection of elements of the underlying pacs.008 customer credit transfer. Its elements must remain unchanged as the message passes through the banking chain.

[3] The complete path to the element is: **/Document/FICdtTrf/CdtTrfTxInf/UndrlygCstmrCdtTrf**

[4] Reason for that is that the pacs.009 (cov) only supports the Underlying Customer Credit Transfer complex element and not an Underlying Financial Institution Credit Transfer complex element.

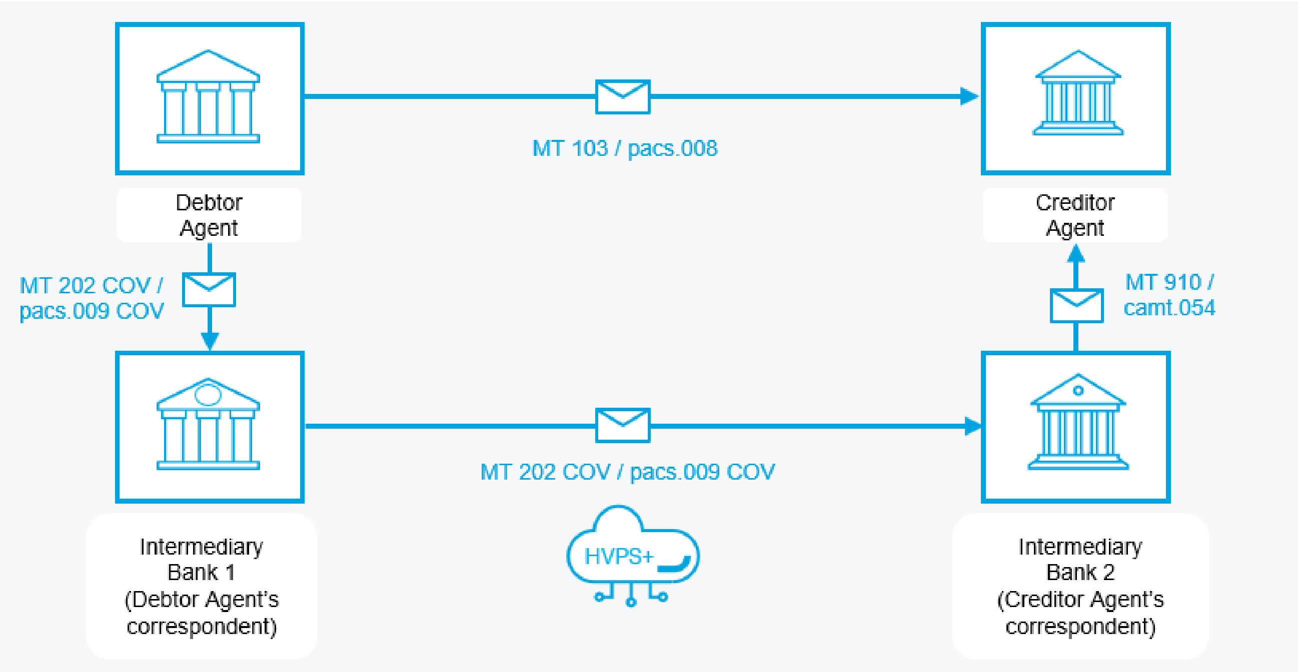
[5] https://cfatf-gafic.org/index.php/documents/fatf-40r/382-fatf-recommendation-16-wire-transfers

Please note that the Debtor, Debtor Agent, Creditor Agent and Creditor are all mandatory elements.

Use of the Underlying Customer Credit Transfer element by the Intermediary Institution enables fulfilment of compliance obligations, including (but not limited to) FATF Recommendation 16 validations, if required by local regulations.

The pacs.009 COV is not an alternative message type for pacs.008.

Figure 1: Direct (MT 103/pacs.008) and Cover (MT 202 COV/pacs.009 COV) message flow (Source: PMPG)



***Note**: The beneficiary institution does not receive the MT 202 COV but only a credit advice (MT910/camt.054). In some cases, 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/pacs.009 COV.

Note for Awareness

It is worth noting that the relationship between the Direct and Cover is evolving. The migration to ISO 20022 and the introduction of the Swift Transaction Manager Platform (TM) requires a deeper analysis of its impact on Direct and Cover messages.

A recent court case in Singapore highlighted that the current industry view is that the MT 103 and MT 202 COV exist independently from each other. The receipt of the MT 103 might be seen as an implied contract between the sender and receiver in some local jurisdictions. Hence, the receipt by the receiver/Instructed Agent and good faith execution of the payment order creates the obligation for the bank sending the direct message to settle the transaction.

The use of the UETR in ISO 20022, in addition to the transaction identification data element, challenges the view of direct and Cover independence. In ISO 20022, the use of a unique UETR binds the Cover message to the Direct message, so that a single transaction can be facilitated via multiple underlying messages. The Direct and Cover combine to make a whole transaction and hence create a transactional linkage that is absent in the MT model[6]. In the Swift TM data model, Direct, Cover and Return are all linked into the same transaction copy.

Whilst it is recognized practice by the Receiver/Instructed Agent to execute payment instructions on the basis of a risk-based approach, the evolution of the relation between Direct and Cover requires heightened attention by the Sender/Instructing Agent. To highlight the risks arising in the current model, the PMPG has collated the following overview. A new market practice guideline **MPG FI CT (COV) #14: Cover Chain Risk** has been introduced to this extent. The detailed flows outlined below for each use case are in the appendix.

Use Case	Status	Financial Risk (Y/N)	Which bank risks a loss?	Who bears the responsibility?	Issues/disadvantages of the model	Potential solution
1a	Bene bank credits the customer upon money confirmation (MT 910 receipt)	N	N/A	N/A	• Customer receives money with delay • Reduced benefit of cover payment model	Credit customer with condition
1b	Bene bank credits customer upon MT 103 receipt	Y	Beneficiary institution	Ordering institution	• Even if willing to pay, ordering institution cannot find a clearing bank (especially if USD)	• Credit customer with condition • Suggest conversion chain
2a	Bene bank credits the customer upon money confirmation (MT 910 receipt)	N	N/A	N/A	• Customer receives money with delay • Reduced benefit of cover payment model	Credit customer with condition
2b	Bene banks credits the customer upon MT 103 receipt	Y	Beneficiary institution	Intermediary institution (ordering correspondent)	• Ordering bank is totally dependent on first correspondent	Credit customer with condition
3a	Bene bank credits the customer upon money confirmation (MT 910 receipt)	N	N/A	N/A	• Customer receives money with delay • Reduced benefit of cover payment model	Credit customer with condition
3b	Bene bank credits the customer upon MT 103 receipt	Y	Beneficiary institution or Account with institution?	Intermediary institution (ordering correspondent) or Ordering institution?	• When this chain is in use, means that there are no other corridors available	Credit customer with condition

Table 1: Risk Scenarios in the current direct and Cover model (Source: PMPG)

The current industry debate is indicating that there is a need for the option to indicate if settlement of the direct message is promised or if the beneficiary bank should treat the direct message as an advice only, subject to credit upon receipt of the Cover.

The length of the Cover chain and jurisdictions involved will play a role in the decision of the bank creating the Direct and Cover. The Instructing Agent should have the option to indicate to the next Agent/Beneficiary/Creditor that the credit to the Beneficiary is conditional upon receipt of the Cover only.

PMPG recognizes that this optionality will require the consideration and implementation of new processes by the global industry. The migration from MT to ISO 20022 provides a unique opportunity to address this market problem long term. Various options could be considered, amongst those:

- the introduction of a new Service Level Code

[6] The camt.054 (Debit Credit Notification) should reference the same UETR as the pacs.008 and pacs.009 COV

- a dedicated Usage Guidance

MPG FI CT (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 minimizes the possibility of delays. Timelines of transaction processing has become more visible for Swift gpi transactions.

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. Further delays might happen if the receiving institution needs to request additional information form the sending institution via a Request for Information (RfI). In ISO 20022 messages, additional data elements are available that if used properly can pre-empt an RfI. Examples include the place and date of birth in the Private Identification complex element or use of the Purpose element.*

MPG FI CT (COV) #3: Operational risk

A delay or reject in processing of the MT 202 COV/pacs.009 COV should be advised as quickly as possible preferably with:

- an update to the gpi tracker via API or MT299[7] (preferred option for gpi members[8])
- an MT296 / pacs.002 to the previous financial institution (Instructing Agent) 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 or the cancellation preferably with an MT 195[9] if an update via the gpi tracker is not possible.

Note*: The introduction of the Universal Confirmations by Swift in November 2020 should enable the Debtor Agent/Ordering Bank to identify a reject by any of the Agents in the chain.*

MPG FI CT (COV) #4: Multiple Credit Transfers

An ordering institution must <u>NOT</u> Cover multiple underlying customer credit transfers, be it an MT 102[10], a pacs.008 with multiple credit transfers or a file made up of several MT 103s/pacs.008s, with a single MT 202 COV/pacs.009 COV.

Pacs.009 COV is only used to Cover a single pacs.008

Note*: pacs.009 ADV with the settlement method 'COVE', allowing to be Covered by a pacs.009, will not include the Underlying Customer Credit Transfer complex element and hence will be a regular pacs.009.*

[7] Swift has created a specific tracker message (trck.001)
[8] SWIFT gpi SLA requirements apply
[9] In some cases the market practice might be to use a MT199 or MT299
[10] Multiple Customer Credit Transfer

MPG FI CT (COV) #5: Clearing systems and pacs.009 COV

Clearing houses and Value Transfer Networks should be able to process the pacs.009 COV or any equivalent format. If a clearing system is not able to handle the underlying information in a Cover message, the local user community will have to decide how to handle this additional information.

A direct MT 103 may be Covered in a local clearing system via a pacs.009 COV or a direct pacs.008 might be Covered via a MT 202 COV/MT 205 COV in the local clearing system

or

If a local clearing system can handle a pacs.009 COV, then the direct message can be a pacs.008 or MT 103.

MPG FI CT (COV) #6: Meaningless or incomplete information

An Ordering Institution/Debtor Agent must ensure that cross-border commercial payments are accompanied by accurate and meaningful information of the Ordering Customer/Debtor and Beneficiary Customer/Creditor 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, as well as to the Debtor and Creditor elements in the Underlying Customer Credit Transfer element of the pacs.009 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 and the Structured Ordering and Beneficiary Customer data in payments on the PMPG website www.pmpg.info.

The underlying Ordering Customer and Beneficiary Customer information in the MT 202 COV sequence B must be the same as in field 50a and 59a of the underlying/related MT 103.

Debtor, Debtor Account, Creditor and Creditor Account elements in the Underlying Customer Credit Transfer element of the pacs.009 COV must be the same as in the pacs.008[11].

MPG FI CT (COV) #7: Use of BICs to identify financial institutions

Whenever a Financial Institution BIC is available, the Ordering Institution/Debtor Agent 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.
- The BICFI element in the ISO 20022 message for any Agent involved in the payment and should strictly avoid including only the Agent's name. Additional organizational identifiers such as an LEI can be added. This equally applies to all Agent elements in the Underlying Customer Credit Transfer elements of the pacs.009 COV (as a copy of the Agents referenced in the pacs.008) where the provision of structured information on all Agents enables easier and faster screening by (intermediary) Agents.

[11] Please note that debtor element, debtor account element, creditor element and creditor account element are complex data elements and all sub-elements (e.g. debtor name, postal address etc.) need to be included.

MPG FI CT (COV) #8: Roles and Responsibilities

The Intermediary institutions' responsibilities are to:

- pass on the information unaltered in Sequence B or the Underlying Customer Credit Transfer element to the next Institution/Agent.
- meet its compliance obligations (i.e., screening the message against regulatory filters as required by local law applicable to the intermediary institution)
- 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.

The Originating Institution/Debtor Agent responsibilities are to:

- determine the correct message type for the transfer.
- ensure use of the MT 202 COV/MT 205 COV/pacs.009 COV instead of the MT 202 /MT 205 /pacs.009 if the Cover method is chosen. Using the incorrect message could be interpreted as an attempt to avoid transparency and will cause a problem for all subsequent banks/Agents and is not in line with the industry Standard. Furthermore, it could also constitute a breach of FATF 16 requirements.
- if a pacs.009 (ADV) is used, the Agent creating the direct pacs.009 (ADV) and the Covering pacs.009 core should ensure that all Agents used in the pacs.009 (ADV) are visible to the Cover chain.

MPG FI CT (COV) #9: Claims & Compensation

The Cover might be delayed due to screening and resulting RFIs by the intermediary and the use of funds by the intermediary might be subject to a claim if the Creditor Agent has already credited the Creditor before the Cover has been received.

The FI CT COV process should utilize the existing processes established for MT 103 or pacs.008.

Note: in most cases today, a delay in MT 103/pacs.008 processing, due to regulatory screening, does not result in a claim unless a real use of funds exists by the intermediary institution.

MPG FI CT (COV) #10: Honoring of cut-off times

The MT 202 COV/pacs.009 COV should follow existing cut-off times for Customer Credit Transfers in RTGS systems and should not 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.

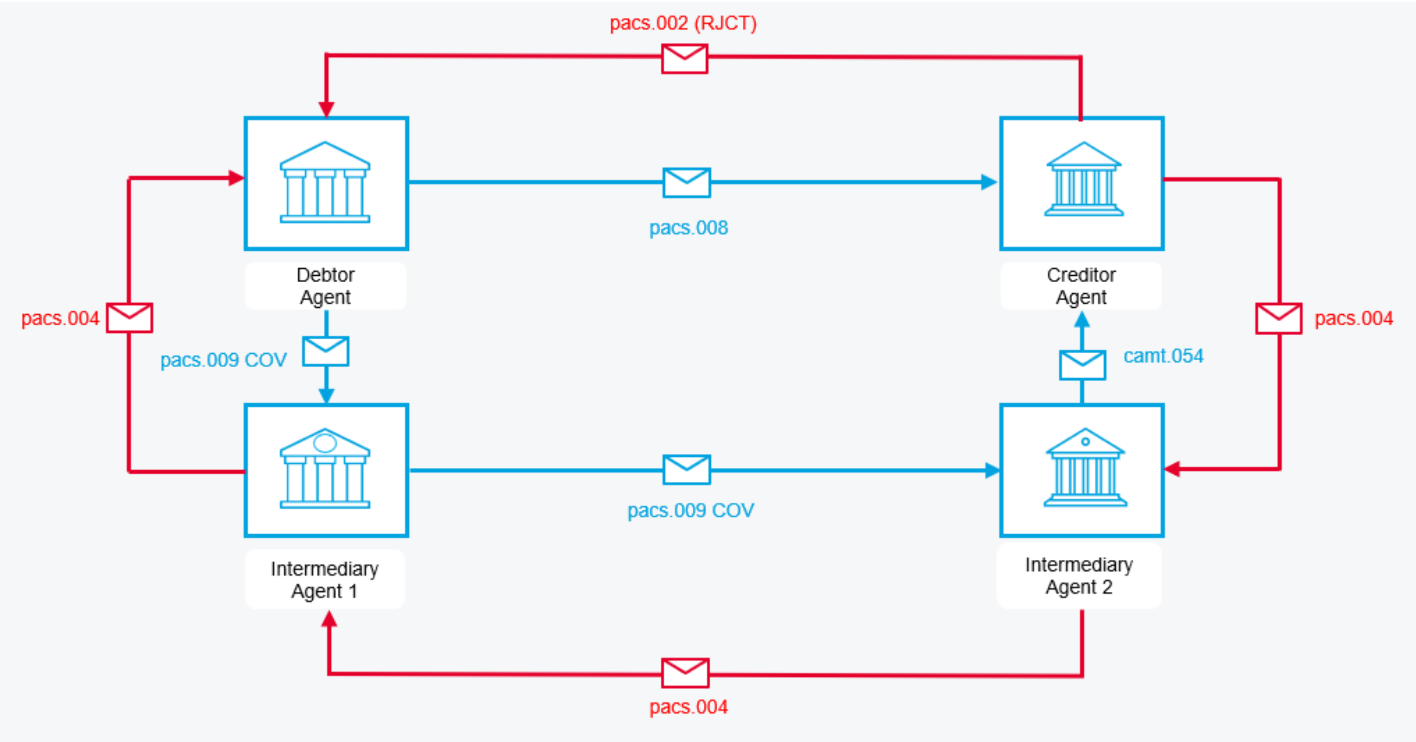
MPG FI CT (COV) #11: Return of Funds

In the case that the intermediary bank is the correspondent for both Agents involved in the return, funds can be returned by simple debit authorization across the books of the common intermediary.

In the case that an intermediary bank or the beneficiary bank/creditor Agent has to return the funds to the ordering bank without a common intermediary, it is strongly recommended:

- To use the MT 202 COV/MT 205 COV by the first initiating bank of the return to preserve full transparency within the interbank chain. The first 6 characters of line 1 of field 72 in sequence A should include the sequence /RETN/
- Use of the pacs.004 as the dedicated return message. The Return Chain element includes the parties in the return payment chain, noting the parties reverse (i.e., change role) from the original payment whereby the Debtor of the original payment becomes the Creditor in the Return Chain.

Figure 2: Return of the transaction by the Creditor Agent (Source: PMPG)



The pacs.004 Return Payment also uses a number of other Original elements in the Transaction Information to capture information from the underlying payment that the Return Payment relates to. **Original End-to-End Identification**, **Original Interbank Settlement Date**, **Original UETR**, **Original Interbank Settlement Amount** should be included. The standard return reason codes should be used[12].

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

If the return of the Cover is decided/executed by one of the intermediary banks, it is strongly recommended that the ordering bank of the initial MT 103 informs the beneficiary bank about the rejection using an MT 196 message, as soon as the funds are received back. The beneficiary bank should consider the original MT 103 "null and void" and confirm the cancellation to the ordering bank.

In the case of an MX message, the Agent instructing the Direct should inform the Creditor Agent via the camt.056, with the code "COVR" when receiving the pacs.004 return unless the Creditor

[12] The code list representing the Return Reason is part of the ISO 20022 external code list

Agent has instructed the return. In that case, the Instructing Agent of the pacs.008 should have received a pacs.002 with the code word RJCT.

To ensure a fast return processing of the funds via MT 202 COV when the original MT 103 is rejected or considered “null and void”, it is recommended that the beneficiary bank re-credits immediately the Loro/Nostro account of the correspondent bank quoting the reason, as well any further details to identify the underlying transaction.

MPG FI CT (COV) #12: Reference Identification *(newly added in version 4.0)*

The End-to-End Identification element in the pacs.009 COV should transport the Instruction ID of the underlying pacs.008 (being Covered). The UETR element in the pacs.009 COV must transport the same UETR as the underlying pacs.008.

Note: As there is only one UETR for the pacs.008 and the corresponding pacs.009 COV, it clearly articulates that both messages are part of the same transaction. Related to MPG #1.

In the pacs.009 the initiator of the payment is an Agent, hence the End-to-End Identification is available as a reference field of the Agent generating the pacs.009 COV.

MPG FI CT (COV) #13: Cancellation in the Direct and Cover Payment Chain *(newly added in version 4.0)*

The Agent who created the Direct and Cover messages is responsible to send a payment cancellation message (MT 192/camt.056) to the Instructed Agent of the Direct message or use the gpi Stop & Recall Service (gSRP)[13]. The Instructed Agent considers the Direct message null and void and confirms cancellation via MT 196/camt.029 or gSRP if subscribed to.

It is the responsibility of the Agent responding to the cancellation to instruct the Payment Return, as necessary, once Covering funds are received .

MPG FI CT (COV) #14: Cover Chain Risk (proposed new practice)

The Agent Bank instructing the Direct and Cover, in non-advice mode (e.g. by not using a new service level code element “Wait for Settlement” - WFSM), has to be aware that the Cover payment could be subject to seizure or blocking by Intermediary Banks while the Direct message is executed in good faith by the receiver. The action of an Agent in the Cover chain does not absolve the Instructing Agent of the direct payment of its obligation of settlement.

The Agent Bank receiving the Direct message has to be aware that the expected Cover payment could be subject to delay, seizure or blocking by the intermediary banks before making a decision to credit the next Agent or the beneficiary’s account. A risk-based decision has to be made to credit the next Agent or the beneficiary’s account with good funds or advise the account owner that the funds are not final.

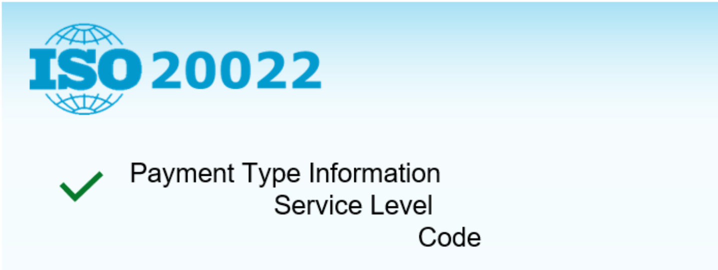
[13] Some banks might send a MT292 via the Cover chain but this not required

MPG FI CT (COV) #15: Time out of advice payment *(proposed new practice)*

A Direct message with the service level code element, such as ‘WFSM‘ should be deemed null and avoid if the settlement of the Cover does not take place within 3 business days.

MPG FI CT (COV) #16: Use of the Wait for Settlement Service Level Code

The ‘Wait for Settlement’ Service Level Code (WFSM) should be placed on the following element:



And is available for the pacs.008 and the pacs.009:

Path: FIToFICstmrCdtTrf/CdtTrfTxInf/PmtTpInf/SvcLvl/Cd

Path: FICdtTrf/CdtTrfTxInf/PmtTpInf/SvcLvl/Cd

As per the CBPR+ User Handbook, the use of the ‘WFSM’ service code should be bilaterally agreed before being used in the pacs.008 or pacs.009 message. Please note that “bilateral agreement” may also fall under applicable implied contract law.

If no bilateral agreement is in place, the Instructing Agent should assume that the Instructed Agent will ignore the codeword and process the payment.

3 Frequently Asked Questions

Q1: Does the usage of the FI CT (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 FI CT (COV) Cover payment format does include additional data elements 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 *(Ref: MPG FI CT (COV) #6).*

Q2: Does the regulatory screening requirement of the FI CT (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: Will additional charges be applied to FI CT (COV) as the information of the MT 103 will be mirrored in the message?

A: As per **MPG MT 202 COV #1,** the FI CT (COV) is not changing the nature of the MT 202/pacs.009. It remains an inter-financial institution transfer. As the FI CT (COV) remains an inter-financial institution transfer, no charges must be deducted from the principal amount.

Q4: 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 FI CT (COV) is not changing the responsibilities banks have in order to be aware and conversant in issues of regulation and legislation impacting their operations and activities.

Q5: A difficult situation may occur depending on the location of the sending and the receiving institutions, especially in circumstances where local business days do not align. How can this be addressed?

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/pacs.008, MT 202 COV/pacs.009 COV and MT 202/pacs.009 instructions.

Q6: How should the MT 196/296 be structured for a non-gpi bank 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:

FIN MT

:20:**Reference of the MT196/MT 296**
:21:**Reference (field 20) of the MT 202 COV message that is delayed**
:76:**/Delay/**
:77A:**Cover payment is delayed**
:11S:**202**
YYMMDD
:79:**MT202 COV**

Q7: Should intermediary institutions stop the processing of an FI CT if they suspect that it is a Cover payment?

A: As **MPG FI CT (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 FI CT (COV)#8**), the intermediary has the right and in some jurisdictions the obligation to stop the processing and reject the payment in this scenario. Any rejected pacs.009 COV has to be notified to the previous Agent via a pacs.002, which in turn may be returned to the Agent who executed the FI CT (COV)

Q8: If the beneficiary institution/Creditor Agent has credited the beneficiary's account based on the MT 103/pacs.008 and the Covering funds are not received for reasons that outside of the control of the Instructed Agent that received the Direct message, what is the recourse of that Instructed Agent?

A: Crediting a beneficiary's account based on the receipt of an MT 103/pacs.008 without receipt of the Cover payment is a policy decision. Each institution has deployed a process that has been approved by the internal risk committees. Policies should be reviewed on a regular basis as part of the MT 202 COV/pacs.009 COV handling to ensure a proper reflection in internal financial risk policies. As highlighted in **MPG FI CT (COV)#1,** crediting the beneficiaries account in good faith can be seen as an implied contract and obligate the sender of the direct message to settle this obligation.

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

Q9: Can non-STP charges be applied to fields in Sequence B of the MT 202 COV or the Underlying Customer Credit Transfer complex element in the pacs.009 COV?

A: As highlighted in **MPG FI CT (COV)#1**, Sequence B or the Underlying Customer Credit Transfer complex element 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, as per **MPG FI CT (COV)#6 & #7,** it is recommended to provide structured information to enable easier and faster screening of the information.

Q10: Is the MT 101/pain.001 impacted by the use of the MT 202 COV/pacs.009 COV?

A: The MT 101/pain.001 is not used in a direct and Cover payment process and is therefore not impacted by the MT 202 COV/pacs.009 COV.

Q11: 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.

Q12: 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. Alternatively, gSRP (gpi Stop and Recall) can be used by participating banks.

Q13: 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 even though 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.

Q14: Can the content of sequence B/ Underlying Customer Credit Transfer 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/pacs.008?

A: The content of the MT 103/pacs.008 should be mapped into sequence B/ Underlying Customer Credit Transfer as supported by the field and data elements of these messages. 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/ Underlying Customer Credit Transfer of the MT 202 COV/pacs.009 COV.

Q15: Is the intermediary institution expected to validate the content of field 50a Ordering Customer in sequence B/debtor in the Underlying Customer Credit Transfer elements against FATF 16 requirements (i.e., contact to the sender of the MT 202 COV/pacs.009 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/pacs.009 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 MT 202COV or the Debtor and Creditor elements in the Underlying Customer Credit Transfer of the pacs.009 COV.

Q16: The Swift User Handbook states that the MT 202 COV/pacs.009 COV must not be forwarded to the beneficiary financial institution/Creditor Agent for reporting purposes. Are there exceptions to this rule where the MT 202 COV/pacs.009 COV can rightfully be sent to the beneficiary financial institution/Creditor Agent?

A: The MT 202 COV might indeed be sent to the beneficiary's financial institution/Creditor Agent 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/pacs.009 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/camt.054 should be used.

***Note**: the use of the MT910/camt.054 is an essential part of the Cover method's model, this allows the receiver of the direct message to acknowledge that settlement has occurred so that the Beneficiary/Creditor of the direct message can have the funds posted to their account in a timely manner.*

4 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 payment community. The PMPG recommends that financial institutions work closely with their regulators to highlight the impact that the Financial Institution Credit Transfer (COV) has on the efficiency of the cross-border payment process.

Above and beyond the guidelines stated above, the community can use the below checklist to validate the implementation and better deal with the operational impact of the Financial Institution Credit Transfer (COV) in those areas where practices are yet to be established:

#	Guidance
1	Banks should make sure that sufficient automation and capacity exists to support the increased need for screening. The introduction of MX messages will increase the number of fields that can be screened.
2	To anticipate potential issues, the ordering institution/Creditor Agent of a Financial Institution Credit Transfer (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.
3	Supporting a conditional credit on the account of the next agent/beneficiary/creditor can create a period of revocability in which the cover payment settles or not. The industry should agree on a time-period in which the cover needs to be received before the direct message becomes null and void if the cover does not arrive.

The introduction of the Swift Transaction Manager Platform (aka Swift TM) is supporting central data dissemination to involved Agents in the payment chain. The original use case for the inclusion of the underlying transaction data in Cover payments should be re-evaluated as the industry progresses with the migration to the TM and the adoption of APIs. In this case, institutions will have the opportunity to query the TM in real-time to obtain underlying transaction details.

In fact, the entire Direct and Cover process should be re-evaluated at some point in time in the near future as the move to real-time payments and extended clearing system hours might render the Direct and Cover model not fit for purpose anymore.

Given all these ongoing developments of practices, as mentioned as a note in **MPG FI CT (COV) #1**, in the short term, the PMPG recommends for the communities of Users to consider the use of the Service Level element in the pacs.008 and the pacs.009 (ADV) to indicate the advice nature of the message. In the long term, a new element in the Direct message or a new version of the "advice to receive" should be considered.

The PMPG successfully requested the addition of a new code to the **ExternalServiceLevel1Code** under the following definition:

Code	Name	Definition
WFSM	Wait For Settlement	Transaction is to be treated as an advice and only applied to the account of the creditor or next agent after settlement of the Cover has been confirmed

Note: *The use of the new code word has been incorporated in the CBPR+ User Handbook*

The aforementioned Service Level code can be applied to the following scenarios[14]:

Scenario	MT	MX	Community Action
{Implied Contract} Direct and Cover of a Customer Credit Transfer ***Note****: Liability lies with the Instructing Agent. Based on receiving bank's risk-based decision, good value may be applied immediately upon receipt of the direct message.*	MT103 {no change} MT202 COV {no change}	Pacs.008 BAH {BizSv = swift.cbprplus.01 Pacs.009 BAH { BizSv = swift.cbprplus.cov.01 } {Underlying Customer Credit Transfer present}	CBPR+ UHB has been updated
{Advice} Direct and Cover of a Customer Credit Transfer *Note: Liability lies with the Instructed Agent if paying out before Cover received. Good Value may not be given upon receipt of the advice by the receiving bank, value will be given upon receipt of the Cover only.*	No change as MTs will be phased out for payments	Pacs.008 BAH {BizSv = swift.cbprplus.01} FIToFICstmrCdtTrf SvcLvl <Cd>WFSM</Cd> Pacs.009 BAH {BizSv = swift.cbprplus.cov.01 } {Underlying Customer Credit Transfer present}	PMPG MPG for Cover payments has been updated to highlight the advice characteristics
{Advice} Direct and Cover of a FI Credit Transfer	No change as MTs will be phased out for payments	Pacs.009 BAH {BizSv = swift.cbprplus.adv.01} FICdtTrf SvcLvl <Cd>WFSM</Cd> Pacs.009 BAH { BizSv = swift.cbprplus.01} {No Underlying Customer Credit Transfer present}	PMPG MPG for cover payments has been updated to highlight the advice characteristics

[14] The reference to the BAH is Swift-specific. High-Value Payment Systems might use different versions of the BAH or might not be using it at all.

If an option exists to treat the Direct message as an advice, the industry should agree on a practice to facilitate such a process. This should align with the enhancement to the CBPR+ implementation of ISO 20022, which allows a pacs.009 to be flagged as an advice in the Business Application header.

A similar approach might be needed for the direct pacs.008. The imminent migration from MT to MX will make it difficult to implement such an option for MT messages and therefore the focus should be on MX messages only.

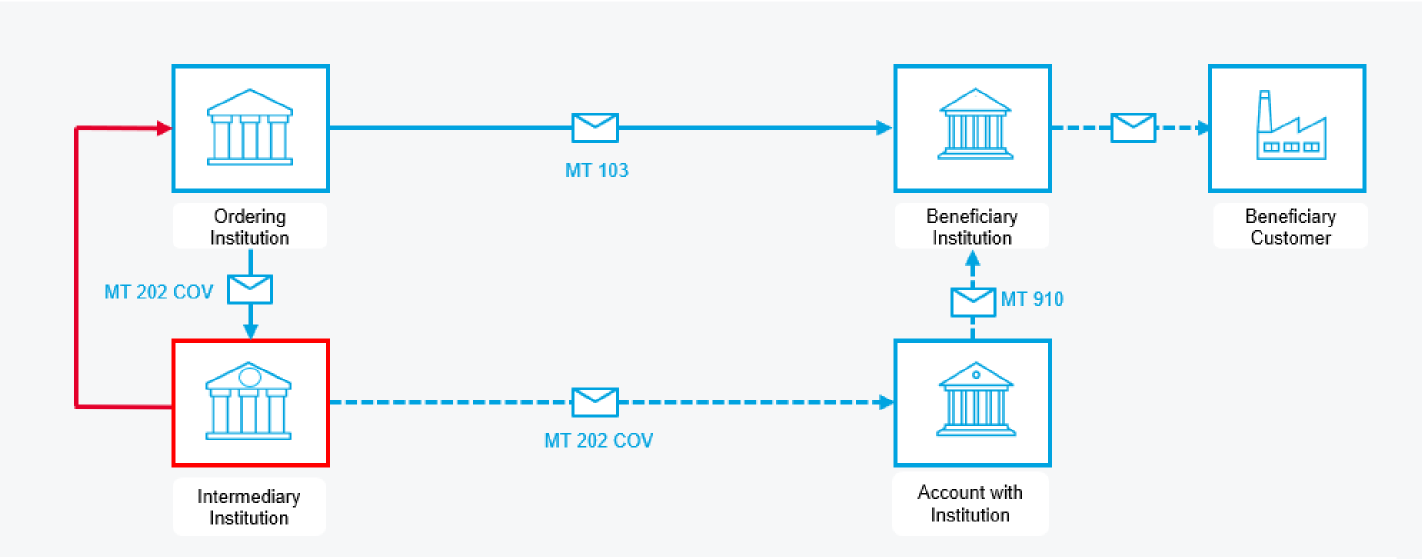
Another view that has been put forward is that management of risk may ultimately need to be a bilaterally agreed decision. Banks who have concerns may need to deal with those directly with the correspondent / respondent. Specifically at the time of exchanging RMA, banks could enter into an agreement that any MT 103 / pacs.008/MT 202/pacs.009 sent to them should be treated as an advice only, and if the Creditor Agent processes the instruction without receipt of Cover funds, then they have done so at their own risk. However, if that decision is not universal across all messages received, then the need to have an element in the payment message to distinguish between the two use cases will remain.

As stated above in the short term, the PMPG recommends the use of the Service Level element in the pacs.008 and the pacs.009 (ADV) to indicate the advice nature of the message. In the long term a new element in the direct message or a new version of the “advice to receive” should be considered.

5 Appendix

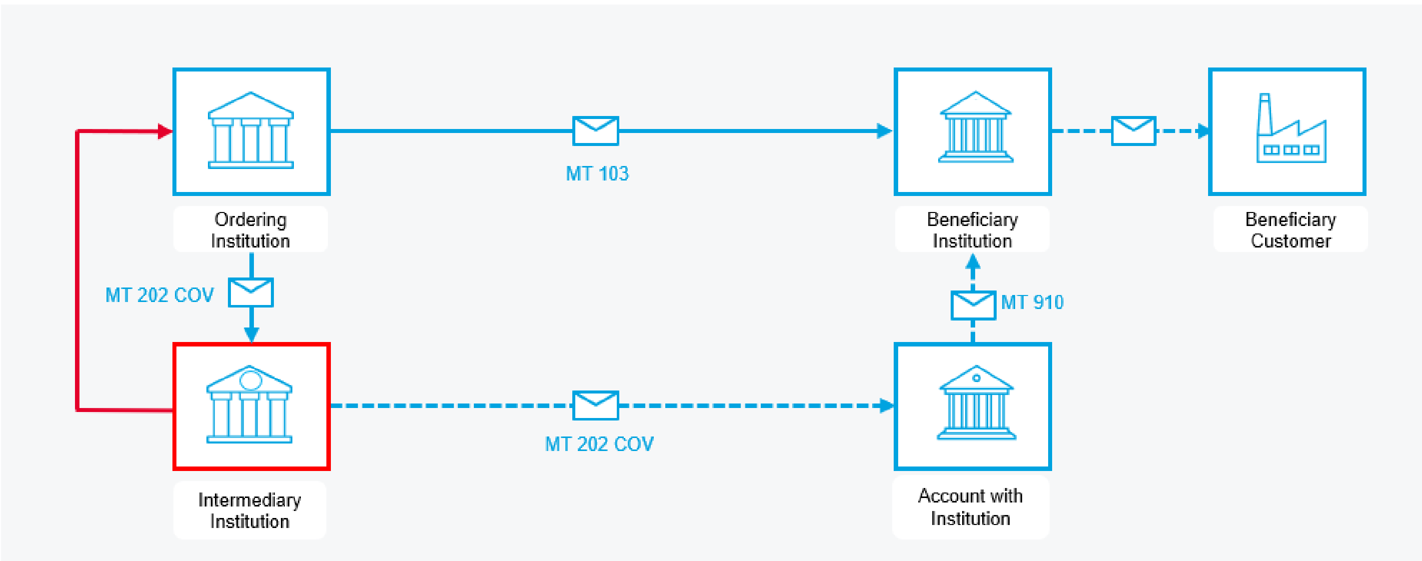
The following describes various use case scenarios of Direct and Cover and identifies the underlying risks.

Use Case 1a: Beneficiary customer not credited until money received in Account with Institution



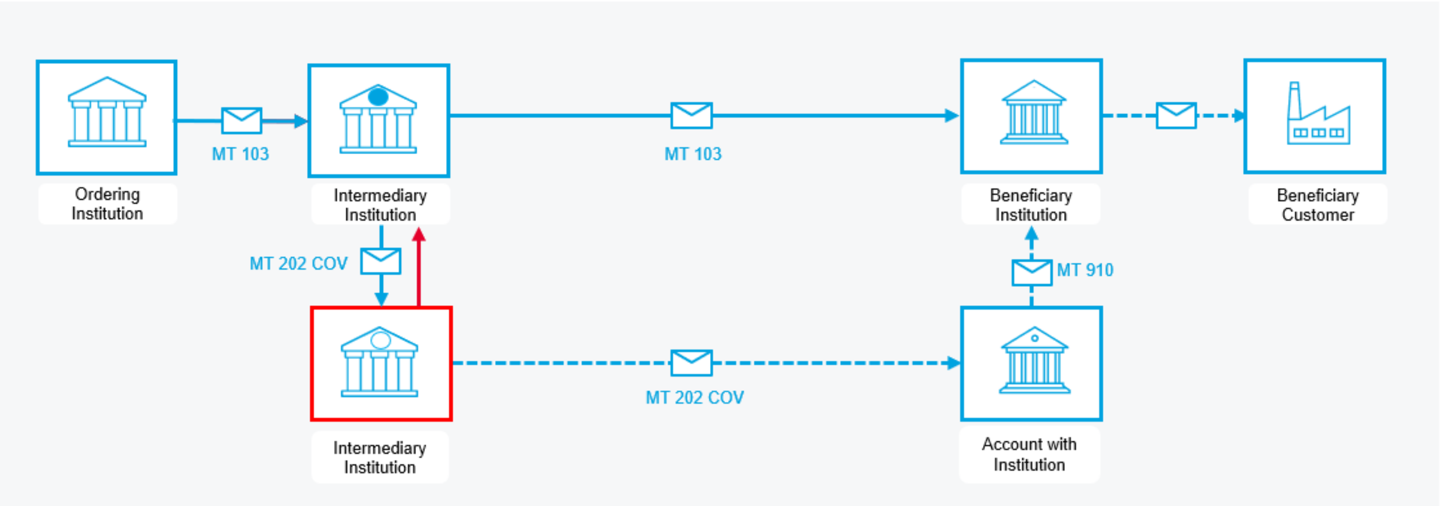
Risk: No risk for Beneficiary bank as credit is only applied after Cover received

Use Case 1b: Beneficiary customer credit upon receipt of MT 103



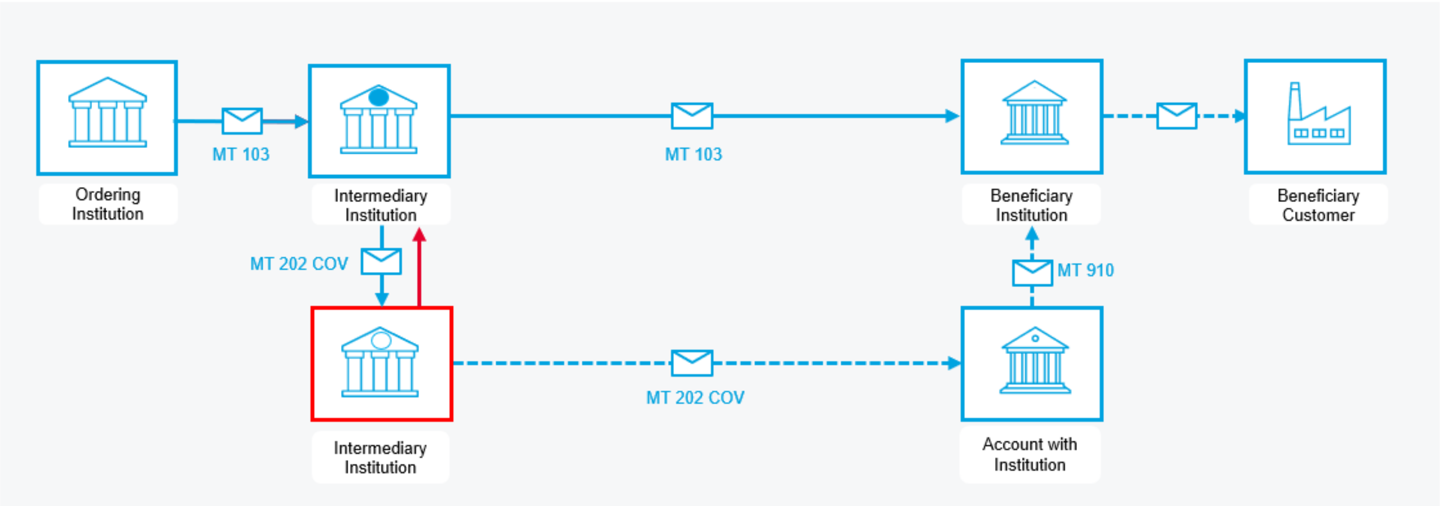
Risk: Beneficiary bank pays before Cover is received. Beneficiary bank has recourse on Ordering bank

Use Case 2a: Beneficiary customer not credited until money received in Account with Institution



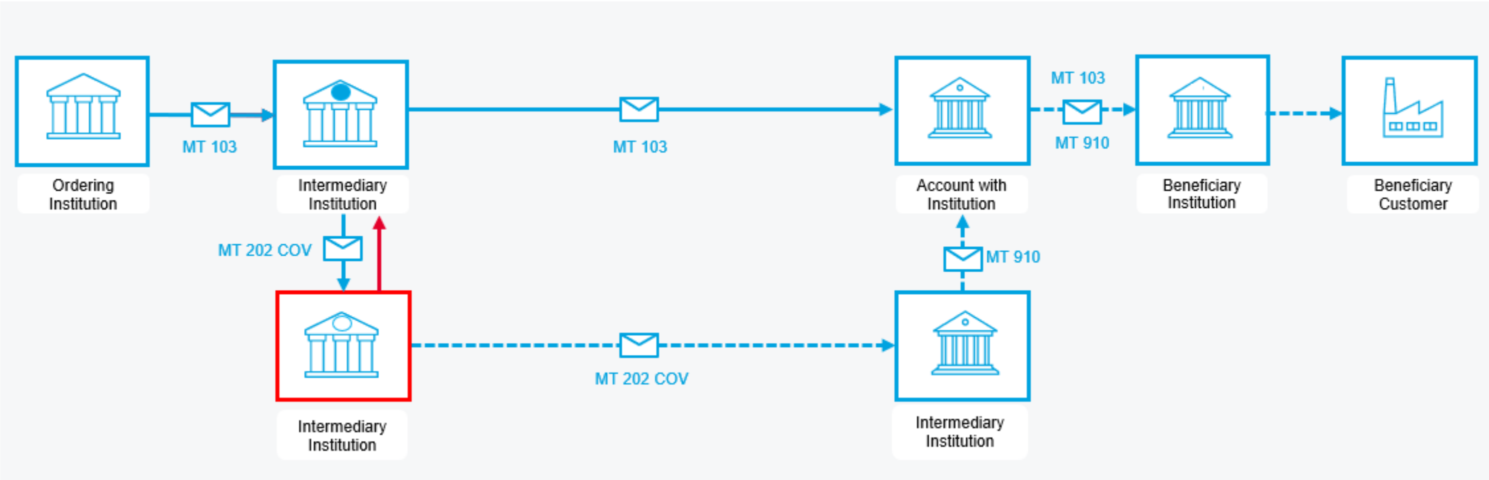
Risk: No risk for Beneficiary Bank as credit is only applied after Cover is received. Intermediary Bank takes on the role of Covering bank

Use Case 2b: Beneficiary customer credited upon receipt of MT 103

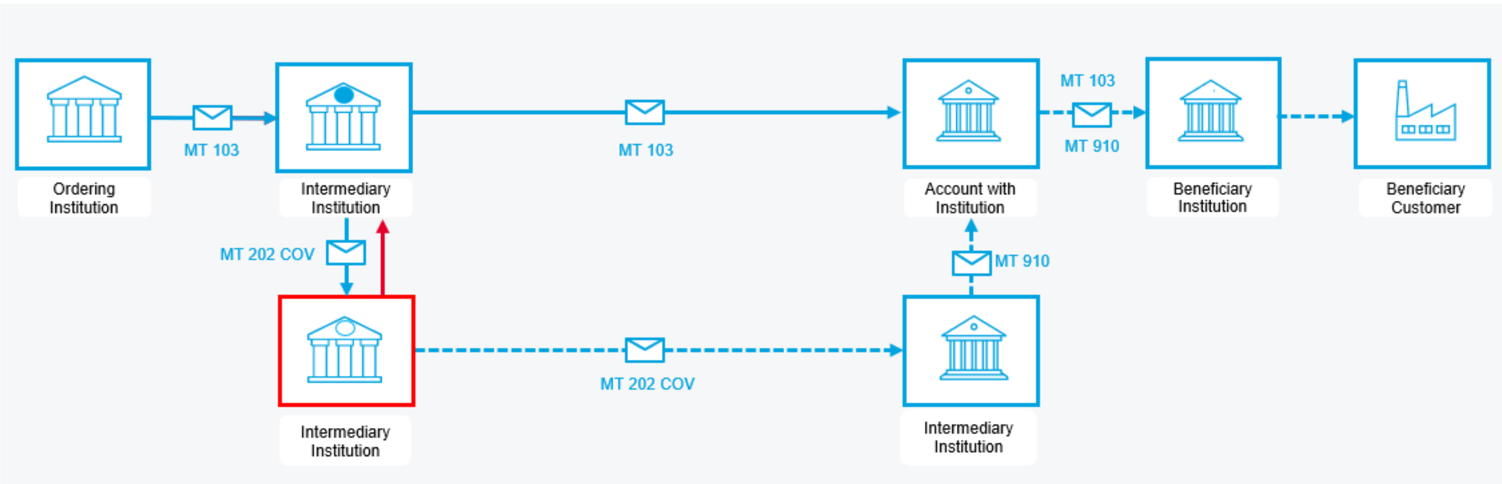


Risk: Beneficiary Bank pays before Cover is received. Beneficiary Bank has recorse on Intermediary

Use Case 3a: Beneficiary customer not credited until money received in Account with Institution



Use Case 3b: Beneficiary customer credited upon receipt of MT 103



6 Glossary

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

Business Application Header (BAH): The BAH describes in one place key details about the message being sent such as sender and receiver organization, message type, character set, business service, copy duplicate. The BAH enables both application routing rules and logic without having to read the XML Business Document.

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.

ISO 20022 is an ISO standard for electronic data interchange between financial institutions. It describes a metadata repository containing descriptions of messages and business processes, and a maintenance process for the repository content.

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.

Transaction Manager Platform (TM) is an infrastructure created and managed by Swift. The TM will store a single transaction copy for each UETR and manage and track each change made to a data element by an Agent.

PMPG
Payments Market Practice Group

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