

December 20, 2016

Secretariat of the Payments Market Practice Group
Society for Worldwide Interbank Financial Telecommunication
Avenue Adele 1
B-1310 La Hulpe
Brussels
Belgium

Via email to: info@pmpg.info

Dear Sir/Madam:

The American Bankers Association¹ appreciates the opportunity to provide comments to the Payments Market Practice Group (PMPG) on its Discussion Paper, *LEI in the Payments Market*, issued in September 2016.

ABA supports the efforts of the PMPG to respond to the recommendation of the Bank for International Settlements' (BIS) Committee on Payments and Market Infrastructure (CPMI) to determine how to integrate Legal Entity Identifiers (LEI) into payment messages without disrupting the structure of those messages. ABA recognizes that the Discussion Paper serves as a starting point in this process of gathering industry input to address the request of the CPMI to the PMPG to leverage the usefulness of LEIs in correspondent banking in a practical manner.

Background

The CPMI published the *Consultative Report on Correspondent Banking*² in October of 2015 and a final paper, *Correspondent Banking*, in July 2016³. BIS' concerns center on the current trend where correspondent banks are terminating relationships with respondent banks due to the high costs of compliance with extensive regulatory requirements. Some correspondent banks are making the rational decision to reduce their regulatory and reputation risk by reducing exposure to respondent banks. As the number of formal bank relationships declines, BIS believes the risk of upsetting the current cross-border payments structure increases.

BIS acknowledges that high regulatory compliance expectations placed on correspondent banks have caused them to reevaluate their relationships with some banks. The types of regulation creating the most friction include Anti-Money Laundering (AML), Countering the Financing of Terrorism (CFT), and Know-Your-Customer (KYC). For example, one of the new expectations is that banks will closely monitor transactions that are conducted through correspondent

¹ The American Bankers Association is the voice of the United States' \$15 trillion banking industry, which is comprised of small, regional and large banks that together employ more than 2 million people, safeguard \$11 trillion in deposits and extend more than \$8 trillion in loans.

² Bank for International Settlements, Published October 6, 2015, <http://www.bis.org/cpmi/publ/d136.pdf>

³ Bank for International Settlements, Published July 2016, <http://www.bis.org/cpmi/publ/d147.pdf>

accounts, particularly foreign correspondents. Due to these regulatory burdens, correspondent banks have reduced the number of relationships with banks that don't generate enough volume to offset compliance costs, are located in perceived geographically risky areas, or provide payment services to customers who can't be adequately rated for risk.

After reviewing the comments it received, the CPMI published its final report in July 2016. One of the recommendations to support correspondent banking and improve its efficiency was to recommend that the PMPG work to define a common market practice where LEIs could be incorporated into payment messages without disrupting the current payment message formats in use, the MT 103 and MT 202 COV. In addition, the CPMI recommended that the PMPG consider how best to incorporate LEIs into the ISO 20022 payment standard that is being adopted worldwide.

LEI in the Payments Market

LEIs are unique alpha-numeric codes that identify specific legal entities that are counterparties to financial transactions. At the end of 2014, more than 330,000 LEIs had been issued in 180 countries. LEIs contain information such as name and address for each associated entity. This is valuable because the same information is required for cross-border transactions. LEIs could be applied to the payor and payee as well as being used to identify the banks in the transaction. Using LEIs could make screening for prohibited parties simpler.

Certain challenges related to the applications of LEIs currently exist. First, LEIs only can be assigned to legal entities and not to individuals. That precludes a large portion of the transactions from the LEI applications. Second, LEI was not designed for AML purposes and it can't be relied upon for KYC purposes by regulators. Overcoming these hurdles will improve the business case for LEIs and accelerate their adoption into payments messages.

PMPG Initiative

ABA supports the PMPG effort to respond to the CPMI recommendation to begin the process of determining how best to integrate LEI into payment messages in a manner that is not prohibitively disruptive or expensive. It is important that a thorough cost/benefit analysis be conducted and reviewed by bank stakeholders prior to the publishing of any market practice guidance by the PMPG. It is important to understand the financial impact these changes would have on smaller financial institutions in the United States that will be adopting ISO 20022 message standards for high value payments between 2020 and 2022. In general, smaller financial institutions with lower transaction volumes will not benefit to the same extent from the economies of scale granted to the largest institutions when absorbing costs related to any changes related to incorporating LEI in to the payment messages.

ABA will work with its member banks to provide the perspective of the broad range of the United States banking community during this process.

ABA appreciates the PMPG's efforts to improve the correspondent banking system through the efficient incorporation of LEIs in payment messages. We look forward to working with you on

this initiative. Should you have any questions, we are available to discuss anything related to these issues in more detail.

Sincerely,

Stephen K. Kenneally

A handwritten signature in black ink that reads "Stephen K. Kenneally". The signature is written in a cursive style with a large, stylized initial "S".

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