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Group**

## **Wolfsberg Guidance on SWIFT Relationship Management Application (RMA) Due Diligence**

### **Background**

The Wolfsberg Group of International Financial Institutions<sup>1</sup> has prepared this guidance document on SWIFT Relationship Management Application (“RMA”) to supplement the Wolfsberg Correspondent Bank Principles issued in 2014. This document is intended to provide broader guidance for managing non-customer RMAs beyond the correspondent banking arena.

The RMA is a messaging capability enabling members of the SWIFT network to exchange messages over the network. The use of RMA is mandatory for sending and receiving SWIFT messages with the exception of the messages listed in **Appendix A**, which require no prior authorisation. RMA can be unrestricted or, through granular authorisations, be limited to specific incoming message types. For the purpose of this guidance document, this latter option will be referred to as RMA Plus. It is also noted that the terms “bank” and “financial institution” are used interchangeably throughout this document.

SWIFT’s RMA functionality replaced the former Bilateral Key Exchange (BKE) and is used to authorise communications between members of the SWIFT network. More details about RMA can be found in **Appendix B**. A traditional customer or client (hereafter “customer”) relationship which involves cross border transactional or liability accounts requires an RMA. RMAs are also established with third parties (i.e. non-customers) to facilitate transactions for existing customers; these RMAs may be referred to as non-customer RMAs.

The possible use of an RMA arrangement for purposes not intended, or agreed to, at the time of establishment is predominantly an operational risk, not a Money Laundering risk. RMA arrangements, if poorly controlled, may, however, allow financial services firms with inadequate Anti Money Laundering

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<sup>1</sup> The Wolfsberg Group consists of the following financial institutions: Banco Santander, Bank of America, Bank of Tokyo Mitsubishi-UFJ Ltd, Barclays, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JPMorgan Chase, Société Générale, Standard Chartered and UBS. This guidance document has also benefited from the contributions of S.W.I.F.T SCRL for which the Wolfsberg Group members are grateful.

(AML) systems and controls, and customers of those firms, direct access to international banking systems. For example, through the exchange of an RMA authorisation with a non-customer, a bank may receive, and act upon, direct payment instructions from a non-customer. This guidance outlines minimum due diligence standards required for non-customer RMAs to help mitigate the impact of possible misuse of an RMA. It is also noted that SWIFT requires and validates membership documentation on all prospective member institutions.

Please refer to **Appendices C** and **D** for information on the types of entities which are members of, or use, the SWIFT Network, as well as the types of messages that are available.

## **1. Principles**

Financial Institutions (FIs) should incorporate RMA due diligence standards into their Financial Crime/AML/KYC programmes where the following concepts or principles should be considered:

- due to the potential risks that may be associated with the establishment of an RMA, approval of such requests needs to be appropriately controlled
- RMA requests may be segregated between customer relationships and non-customer RMAs, with distinct due diligence criteria for each
- where an RMA holder has a customer relationship subject to due diligence, the requirements under that due diligence programme will apply
- due diligence on the RMA holder should consider the message types used by the RMA holder and the risk associated with the activity conducted
- RMA Plus offers certain capabilities to limit the types of SWIFT messages exchanged and may facilitate the determination of due diligence requirements
- Change in RMA usage from a non-customer to a customer relationship should be identified on a timely basis and any additional due diligence required for the customer relationship collected, as per usual customer due diligence standards

## **2. Definition of a non-customer relationship**

A non-customer RMA is generally created when there is a request that the bank sends or receives SWIFT messages to/from a third party (i.e. the non-customer) in support of a customer's business and where the bank has no other relationship with that third party. This can include both transactional and non-transactional messages. Such arrangements are sometimes referred to as "network banks," which facilitate the continuing ability to meet customer global trading expectations and requirements. Network banks are non-customer banks and have no accounts, facilities or dedicated Relationship Manager. They are sponsored by a global line of business and interactions are limited to document exchanges and restricted SWIFT RMA message interactions. The settlement of any transaction is decoupled from the document exchange and always made via a customer bank.

Some examples of where non-customer RMAs may be established to facilitate activity for existing customers include, but are not be limited to:

- Cash management: receipt of balance and transaction information on a corporate customer's account at another bank, so that the corporate customer can view activity through its bank's reporting tool
- Cash management: relaying payment instructions from a corporate customer to their third party bank

- Custody: provision of information from a sub custodian bank to the global custodian at the request of the client
- Trade Finance (e.g., letters of credit): exchange of messages with banks that do not otherwise have direct payment relationships
- Exchange of messages with payments and securities markets infrastructure entities, e.g., exchanges, depositories

It is noted that the definition of a customer may vary according to applicable local laws and regulations, which may also have an impact on the designation of non-customer RMAs. For example, in certain jurisdictions, the establishment of an RMA with a bank is considered a form of customer relationship and therefore subject to risk-based due diligence. It is important for FIs to assess and understand any local requirements that may apply in the jurisdictions in which they operate and be guided by those requirements.

### **3. Minimum Due Diligence Procedures for non-customer RMAs**

The minimum recommended identification and due diligence requirements are as follows:

- collect name and address information
- conduct sanctions screening against relevant Sanctions list(s), as appropriate
- conduct a review against internal “red flag” lists. In this context “red flag lists” refer to lists that FIs may maintain to manage or monitor transactions/relationships with particular entities. These are generally based on a variety of factors including, but not limited to, prior unusual transaction history and negative media reports
- evaluate risks of the potential RMA based on the above information to identify whether an FI may require further review based on internal risk tolerance

### **4. Suggested Procedures for Ongoing Management of RMAs**

The potential risks associated with the establishment of a non-customer RMA need to be managed throughout the lifecycle of that RMA. Below are suggested procedures for managing the potential risks associated with non-customer RMAs, as well as the transactions the FI undertakes with such entities:

- conduct periodic reviews of message volumes sent to/received from non-customer RMAs to determine if volumes and/or message types warrant additional due diligence due to significant changes in usage or cancellation due to non-usage conduct sanctions and internal “red flag” screening periodically in accordance with internal screening standards. Periodic screening should be done against names added since the previous periodic review
- if an FI has not historically screened RMAs against sanctions and “red flag” lists, a review of the existing files should be conducted within a reasonable time period.

## Appendix A: List of SWIFT messages which do not require an RMA authorisation

MT 300	Foreign exchange confirmation: Confirms information agreed to in the buying/selling of two currencies
MT 303	Forex/currency option allocation instruction: Instructs the allocation of a block trade (forex or currency option)
MT 305	Foreign currency option confirmation: Confirms information agreed to in the buying and selling of <b>vanilla</b> options on currencies
MT 306	Foreign currency option confirmation: Confirms information agreed to in the buying and selling of <b>exotic</b> options on currencies
MT 320	Fixed loan/deposit confirmation: Confirms the terms of a contract relative to a fixed loan/deposit transaction
MT 330	Call/notice loan/deposit confirmation: Confirms the terms of a contract relative to a call/notice loan/deposit transaction
MT 340	Forward rate agreement confirmation: Confirms the details of a forward rate agreement
MT 341	Forward rate agreement settlement confirmation: Confirms the settlement details of a forward rate agreement
MT 350	Advice of loan/deposit interest payment: Advises of a loan/deposit interest payment
MT 360	Single currency interest rate derivative confirmation: Confirms the details of a single currency interest rate derivative swap, cap, collar or floor
MT 361	Cross currency interest rate swap confirmation: Confirms the details of a cross currency interest rate swap transaction
MT 362	Interest rate reset/advice of payment: Confirms or advises the reset rates of the floating interest rate(s) in a single or cross-currency interest rate derivative transaction and/or the payment of interest at the end of an interest period
MT 364	Single currency interest rate derivative termination/re-couponsing confirmation: Confirms the details of the partial or full termination or re-couponsing of a cross currency interest rate swap
MT 365	Cross Currency Interest Rate Swap Termination/Recouponsing Confirmation: Confirms the details of the partial or full termination or recouponsing of a cross currency interest rate swap.
MT 370	Netting position advice: Advises the netting position of a currency
MT 390	Advice of charges, interest and other adjustments: Advises an account owner of charges interest or other adjustments
MT 391	Request for payment of charges, interest and other expenses: Requests payment of charges, interest or other expenses
MT 392	Request for cancellation: Requests the receiver to consider cancellation of the message identified in the request
MT 395	Queries: Requests information relating to a previous message or amendment to a previous message
MT 396	Answers: Responds to an MT 395 Queries or an MT 392 Request for cancellation or other message where no specific message type has been provided for a response
MT 398	Proprietary message: Contains formats defined and agreed to between users and for those messages not yet live
MT 399	Free format message: Contains information for which no other message type has been defined
MT 600	Commodity trade confirmation: Confirms the details of a commodity trade and its settlement
MT 601	Commodity option confirmation: Confirms the details of a commodity option contract
MT 605	Commodity notice to receiver: Notifies the receiver of an impending book-entry transfer or physical delivery of a specified type and quantity of commodity
MT 606	Commodity debit advice: Advises the receiver of a debit entry to a specified commodity account
MT 607	Commodity credit advice: Advises the receiver of a credit entry to a specified commodity account
MT 608	Statement of a commodity account: Provides the details of all bookings to a commodity account
MT 609	Statement of commodity contracts: Identifies all outstanding commodity contracts, as at a specified date for which confirmations have been exchanged
MT 620	Commodity fixed loan/deposit confirmation: Confirms a commodity fixed term loan/deposit contract
MT 670	Standing settlement instruction update notification request: Requests SWIFT to create the MT 671 from the MT 670 and send it financial institutions
MT 671	Standing settlement instruction update notification: Specifies standing settlement instructions for one or more currencies
MT 900	Confirmation of debit: Advises an account owner of a debit to its account
MT 910	Confirmation of credit: Advises an account owner of a credit to its account
MT 920	Request message: Requests the account servicing institution to send an MT 940, 941, 942 or 950

MT 935	Rate change advice: Advises the receiver of general rate change(s) and or rate change(s) which applies to a specific account other than a call/notice loan/deposit account
MT 940	Customer statement message: Provides balance and transaction details of an account to a financial institution on behalf of the account owner
MT 941	Balance report: Provides balance information of an account to a financial institution on behalf of the account owner
MT 942	Interim Transaction Report: Provides balance and transaction details of an account, for a specified period of time, to a financial institution on behalf of the account owner.
MT 950	Statement message: Provides balance and transaction details of an account to the account owner
MT 970	Netting statement: Provides balance and transaction details of a netting position as recorded by a netting system
MT 971	Netting balance report: Provides balance information for specified netting position(s)
MT 972	Netting interim statement: Advises interim balance and transaction details of a netting position as recorded by a netting system
MT 973	Netting request message: Requests an MT 971 or 972 containing the latest available information
MT 985	Status enquiry: Requests an MT 986
MT 986	Status report: Provides business-related information about a customer or institution
MT 990	Advice of charges, interest and other adjustments: Advises an account owner of charges, interest or other adjustments to its account
MT 991	Request for payment of charges, interest and other expenses: Requests payment of charges, interest or other expenses
MT 992	Request for cancellation: Requests the receiver to consider cancellation of the message identified in the request
MT 995	Queries: Requests information relating to a previous message or amendment to a previous message
MT 996	Answers: Responds to an MT 995 Queries or an MT 992 Request for cancellation or other message where no specific message type has been provided for a response
MT 998	Proprietary message: Contains formats defined and agreed to between users and for those messages not yet live
MT 999	Free format message: Contains information for which no other message type has been defined

## **Appendix B – RMA overview**

### **RMA**

The RMA is a messaging capability that enables members of the SWIFT network to exchange messages over the network. The use of RMA is mandatory for sending and receiving any SWIFT message which is not listed in **Appendix A**.

RMA exists in two forms: it can be unrestricted, which means a user authorises a counterpart to send any message type beyond the list in **Appendix A**. This is the default and most common usage of RMA. It can also be restricted, which means a user can define exactly which message types, beyond the list in **Appendix A**, a counterpart can send them. This capability is delivered to users via an optional product called SWIFT RMA Plus. Users of non-SWIFT provided interfaces should find out from their interface provider how this functionality can be made available to them.

### **Traffic is blocked at the sender level**

RMA blocks unwanted traffic at the sender level, which means that message traffic from a specific counterpart will only be sent if an appropriate authorisation is found.

### **RMA authorisations need not be symmetrical**

Each user can set the bar for authorised traffic independently of the counterpart. This means that a user of RMA Plus (or equivalent) may choose to be more restrictive with a counterpart, without that counterpart needing to be a user of RMA Plus (or equivalent).

### **Upgrading from RMA to RMA Plus (or equivalent)**

If a user has an RMA authorisation in place and wishes to be more restrictive with certain counterparts, that user only needs to send an RMA Plus authorisation (or equivalent) to that particular counterpart and it will override the existing RMA authorisation in place. There is no need to cancel the existing RMA. However, it is noted that this new authorisation needs to be accepted by the counterpart to be effective. An automated tool to convert RMA arrangements to RMA Plus is not in place, and conversion cost and effort may be significant.

### **Revocation of an RMA**

If an authorisation is no longer required, then it should be revoked using an RMA revocation message. Today this revocation needs to be accepted by the counterpart to be effective. During the second quarter of 2016, SWIFT will implement a central revocation check which will block traffic from a counterpart within a maximum of 15 minutes of the acknowledgement of the revocation message on the SWIFT network. The requirement to accept the incoming revocation is unchanged to ensure that local RMA databases reflect the correct status and to limit the cost of rejected traffic.

## **Appendix C – Categories of SWIFT Participants**

Entities that use SWIFT are grouped into three main categories:

- Supervised Financial Institutions (FIs)
- Non-Supervised Entities active in the financial industry
- Closed User Groups and corporate entities

A Supervised Financial Institution is an entity that engages in payment, securities, banking, financial, insurance or investment services or activities, which is supervised by a Financial Market Regulator. The category includes banks, broker/dealers and investment management institutions.

A Non-Supervised Entity active in the financial industry (NOSU) is not supervised by a Financial Market Regulator, but is also is an entity, to the main activities of which are to:

- engage in payment, securities, banking, financial, insurance or investment services or activities to Supervised Financial Institutions and/or to third parties unrelated to the Non-Supervised Entity, or
- engage in services to Supervised Financial Institutions and/or to third parties unrelated to the Non-Supervised Entity, where those services support financial transaction processing by means of communicating and processing information and require the sending of messages in the Non-Supervised Entity's own name.

NOSU's are either majority-owned by (an) entity/entities in the user category of Supervised FI, or is recommended by three entities in the category of Supervised FI unrelated to the Non-Supervised Entity applicant.

Closed User Groups and corporate entities refer to a number of different entity types which are not FIs. Eligibility requirements vary for each of the following entity types:

- Corporates
- Financial Market Regulator
- Payment System Participant
- Securities Market Data Provider
- Securities Market Infrastructure System Participant
- Service Participant within Member Administered Closed User Group
- Treasury Counterparty

Corporates are generally listed on a regulated stock exchange of a country that is a member of the Financial Action Task Force (FATF), or recommended for membership by FI which is located in a FATF member country.

A Financial Market Regulator is an entity which is owned or controlled by federal, state, regional or local governments and regulates or supervises institutions engaged in securities, banking, financial, investment or insurance business.

A Payment System is defined as a funds transfer system processing third party payments, which is supervised by a Central Bank or an appropriate Regulatory Authority. A Payment System Participant is

an institution which is the Central Bank, the Regulatory Authority or the Administrator of the Payment System or an institution authorised by the Central Bank, the Regulatory Authority or the Administrator to become a user of the Payment System, according to the access criteria of the Payment System.

A Securities Market Data Provider is an entity, the principal activity of which is to collect and distribute financial information to FIs as part of the service or product they provide. Financial Information is defined as: Corporate Action announcements, Reference data, Securities Pricing information, New Issue and Prospectus documents, Trade Volume information and Index Data.

A Securities Market Infrastructure System is defined as a system processing securities' related messages or data, which is administered by a Central Institution or an appropriate Regulatory Authority. A Securities Market Infrastructure System Participant is an institution which is the Regulatory Authority or the Administrator of the Securities Market Infrastructure System, or an institution authorised by the Regulatory Authority or the Administrator to become a user of the Securities Market Infrastructure System according to the access criteria of the Securities Market Infrastructure System.

Service Participant within Member Administered Closed User Groups is a Member Administered Closed User Group defined as a group of users selected by a Member to participate in the closed user group as Service Participant and allowed to use SWIFT products and services to communicate with a Service Administrator.

A Treasury Counterparty is an entity duly incorporated within its own jurisdiction which undertakes a large volume of treasury activities incidental to its core business with multiple bank counterparties.



## **Appendix D – Types of Messages**

Below is a list of the SWIFT message categories used to effect, confirm, advise and inquire on the status of transactions involving various financial assets. The MT900 series is not used to effect transactions and the exchange of MT900 messages is generally considered to be non-transactional activity.

MT100 Series: Customer Payment and Cheques

MT200 Series: Financial Institution Transfers

MT300 Series: Treasury Markets - Foreign Exchange, Money Markets and Derivatives

MT400 Series: Collection and Cash Letters

MT500 Series: Securities Markets

MT600 Series: Treasury Markets - Precious Metals – Reference Data

MT700 Series: Documentary Credits and Guarantees

MT800 Series: Travellers Cheques

MT900 Series: Cash Management and Customer Status