

Thinking Globally



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To schedule a discussion about your business issues with one of The Bank of New York Mellon's thought leaders, call 1 (800) 424-3004 or send an email to wcs@mellon.com.

A MESSAGE FROM ERIC KAMBACK

Deputy Sector Head / Treasury Services / The Bank of New York Mellon

For companies that want to grow globally, there's good news. For the sixth year in a row, worldwide growth is outpacing analyst forecasts. New markets, including the densely populated China and India, have emerged. Billions of new clients have money to spend.

At the same time, technology has fostered the development of a dynamic and robust global economy that functions regardless of distance or the physical borders that separate trading partners. And with increasingly liberal trade policies, this combination of factors has given rise to a marketplace poised for increased international trade and expansion. **The general consensus: opportunity isn't just knocking – it's beating down the door.**



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While worldwide markets are more fertile than ever, the issues that dictate success or failure have never been more complex. As a result, organizations are seeking solutions that will enable them to do business with their global partners with the same efficiency and ease that characterizes in-country transactions. At the same time, banks are focusing heavily on ways to reduce the risk of participating in international transactions—to head off the potential for the illicit use of funds for activities such as money laundering and the financing of terrorism.

This series of short articles, compiled by experts from the Treasury Services division of The Bank of New York Mellon, will help you explore several of the issues facing treasury managers who are trying to guide their organizations through the complexities of the international marketplace with an eye toward maximizing opportunities—and managing risk. Specifically, we'll share our thoughts on the new requirements set forth by the Financial Action Task Force (Special Recommendation VII), the impacts and implications of the establishment of the Single Euro Payments Area (SEPA), the importance of enhancing transparency in global payments, and the need to develop better low-value payment capabilities.

I hope you will find this information useful. As you read, keep in mind that you don't have to navigate the complex international business environment on your own. The experts of The Bank of New York Mellon Treasury Services have the insight and experience to help you grow your business globally while minimizing risk and maximizing the efficiency of your processes worldwide. Call us to learn more at 1 (800) 424-3004 or send us an e-mail at wcs@bnymellon.com. We should talk.

Sincerely,

Eric Kamback

While worldwide markets are more fertile than ever, the issues that dictate success or failure have never been more complex.



FATF SR VII: What Remitters and Remitting Banks Need to Know Now

by Bryan Kirkpatrick, Vice President, The Bank of New York Mellon Treasury Services

As awareness grows regarding the potential for the misuse of the payments system for illicit purposes such as money laundering and the financing of terrorism, many governments and financial organizations worldwide are proactively instituting preventive measures. One of the most visible efforts — and possibly one of the most effective — is the Financial Action Task Force, better known as FATF.

The FATF is an inter-governmental body that is working to develop and promote national and international policies aimed at combating money laundering and terrorist financing. By its nature, the FATF is therefore a “policy making body” which strives to generate the necessary political will to bring about national legislative and regulatory reforms in these areas. Its specific activities include:

- monitoring members’ progress in implementing necessary measures;
- reviewing money-laundering and terrorist-financing techniques and countermeasures; and
- promoting the adoption and implementation of appropriate measures globally.

In performing these activities, the FATF collaborates with other international bodies involved in combating money laundering and the financing of terrorism.*

One of the key achievements of the FATF has been the development of Special Recommendation VII (SR VII). SR VII centers on preventing terrorists and other criminal elements from using the world’s payment systems to transfer ill-gotten funds and to avoid detection by law-abiding institutions. To achieve this goal, the FATF intends to collect sufficient data about the remitter of the funds so as to enable receivers to quickly and accurately identify, trace, review and report suspicious transactions.

What does SR VII Mean to You as a Bank or Non-Bank Payment Services Provider?

You should know that there are two primary impacts on your business, which center on the fact that the reporting requirements of SR VII place specific obligations on you concerning the party that originates payment instructions (i.e., the ordering party).

- So, for example, if a corporate or retail customer instructs you to debit their account/make a payment, you must collect the information required by SR VII and add it to the information your customer provided before you initiate your own outgoing payment instructions. You must include your customer’s name, address and account number or other unique identification.
- In another scenario, if one of your customers originates instructions to debit and issue payment from an account you hold at The Bank of New York Mellon, then your customer is considered “the ordering party” and you are considered “the ordering institution.” You are, therefore, obligated to supply



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The Bank of New York Mellon with complete information as required under SR VII as described above. We, in turn, are required to act as an intermediary, passing the information that we receive to the forward parties in the chain. Note that this requirement is consistent with existing U.S. Treasury regulations commonly referred to as the "Recordkeeping and Travel Rules."

The impacts of failure to comply with the provisions set forth by SR VII, to a large extent, vary by bank. Some banks indicated that, if they do not receive the transaction with full details, they will return the payment. Others are taking a less stringent approach, offering a grace period during which they will hold payments that fail to meet the data requirements and give the remitting parties a set timeframe during which to provide complete data. If the data is not received, these banks may then return the funds. In either scenario, banks may levy a "return of funds" charge, reducing the proceeds they return by the commensurate charge amounts. Still other banks have mentioned that they also plan to levy a repair charge for these non-compliant payments.

The bottom line: if you don't submit the information required under SR VII, it might cost you money and slow down your clients' payments. So, take notice now and be prepared to provide complete details on your remitting parties that should include name, address, and account number. If the remitter does not hold an account with you, proof of an adequate form of identification must be included in the transaction.

In view of its significant benefits, The Bank of New York Mellon intends to comply with SR VII. If The Bank of New York Mellon is acting on your behalf as an intermediary bank for payment instructions that you have sent to us on behalf of your own customers, you will be responsible for providing the requisite details about your customers, and The Bank of New York Mellon will be required to pass the information you supply to the forward parties of the transactions.

To minimize the impacts of these changes, The Bank of New York Mellon expects to enhance its systems to allow you to input information about your customers, effective with the SWIFT 2007 Standards Release on October 27, 2007. If we are acting on your behalf and you are the ordering party, we will provide your account number and your name and address as they are maintained on our systems in our outgoing instructions.

**Provided by FATF*

FATF suggests two exceptions: (1) transfers made using a credit or debit card, provided that the card number is included in the transfer data and (2) financial institution to financial institution transfers / settlements where both the originator & the beneficiary are financial institutions acting on their own behalf.



Enhanced Transparency in International Payments

by Phil Zeidner, Vice President, The Bank of New York Mellon Treasury Services

The global banking community (represented by The Clearing House Association L.L.C. and The Wolfsberg Group*) recently issued a statement endorsing measures aimed at promoting the effectiveness of anti-money-laundering and anti-terrorist-financing programs. These programs may entail an enhanced payment message format for third-party cover payments (MT202s), which could include information about the originator and the beneficiary of the original, direct payment. With support of the global regulatory community, and subject to acceptance by banking co-operative SWIFT, the new payment message could be implemented by November 2009, at the earliest. The Wolfsberg Group has submitted the MT202 change request to SWIFT, which will decide whether and in what form to submit these requests to a vote by SWIFT members, who then will vote on the measure on a country-by-country basis.

In response to the Wolfsberg Group's proposal, the German SWIFT User Group has offered another proposal that utilizes field tag 77E of the MT 202 message to incorporate the details of the original SWIFT MT 103 message. Both of these proposals will be reviewed by SWIFT Payments Maintenance Working Group at SIBOS and we expect to hear the outcome of their findings shortly.

While at the moment you do not have to do anything, be aware that, if the new payment message format is implemented, you may be required to use this new format when submitting cover payments to your correspondent banks. This may entail including more information (e.g., the originator and the beneficiary) in the cover payment than you do today.

As The Bank of New York Mellon receives more information about progress on this initiative, we will continue to communicate the updates to you and will assist you in understanding associated implications for your organization.

**The Wolfsberg Group is an association of 12 global banks, which aims to develop financial services industry standards, and related products, for Know Your Customer, Anti-Money Laundering and Counter Terrorist Financing policies.*



Streamlining Cross-border Payments: The Promise of SEPA

By Michael Bellacosa, Vice President, The Bank of New York Mellon Treasury Services

The Single Euro Payments Area (SEPA) is the region in Europe where certain payment types can be made and received under the same conditions, rights, and obligations. The payments must be in EUR and must be initiated and received within any of the participating EU/EEA countries. It does not matter whether these payments are made within or between national borders. This means that cross-border payments will be treated the same way as domestic payments.

The payment types included in SEPA are Automated Clearing House (ACH) Credit Transfers (by 2008), Direct Debits (by 2009 at the earliest), and Card payments. Wire Transfers are out of scope. In its final form, SEPA eliminates the legacy national ACH clearing systems in the Eurozone and replaces them with several competing Pan-European Automated Clearing Houses (PE-ACHs).



SEPA Participants
Source: European Payments Council

SEPA promises many potential benefits. It promises to streamline cross-border ACH payment processing, allowing for transparency and consistent payment execution. And, it also defines payment delivery timeframes and aims to ensure delivery of the full amount to the beneficiary.



Corporates will be better able to streamline treasury operations in several ways:

- A single payment file in a single, standardized format will suffice for all countries.
- Common standards will improve straight-through processing rates.
- Cash forecasting may be more accurate because of standardized Service Level Agreements and delivery timeframes.
- Fewer bank accounts will be needed (only one EUR account will be necessary to access the entire Eurozone for ACH payments).
- There will be standardized clearing cycles: The EU's Payment Services Directive, which becomes effective in November 2009, stipulates that maximum end-to-end clearing times must be D+3. From January 1, 2012, the clearing time is reduced to D+1.

Clearly, SEPA represents a significant opportunity for businesses operating in the European countries comprising the Eurozone. A chief consideration for banks will be whether you are willing or able to invest in an infrastructure that will support SEPA payments—and whether outsourcing may be a desirable course of action. You can learn more about SEPA and the Eurozone countries' national SEPA migration plans on the European Central Bank web-site at:

<http://www.ecb.int/paym/sepa/about/timeline/html/index.en.html#implement>.

Responding to the significant opportunities offered by SEPA, The Bank of New York Mellon is reviewing our European cash management products and services to identify opportunities to assist you in taking advantage of its provisions. Current plans include EUR accounts in Europe, a variety of liquidity and investment products, and more. Learn more by contacting your Bank of New York Mellon representative.



Remit Worldwide: Developing Low-Value Payments Capabilities

By Eric Kamback, Deputy Director, The Bank of New York Mellon Treasury Services

For generations, immigrants have sent money back to their homes to support their extended families. In 2005 alone, upward of \$230 million was remitted by more than 175 million immigrants and migrant workers worldwide — a figure projected to swell to \$289 billion this year, according to the World Bank. Today, major money services businesses are the primary servicers of the remittance market; only 10 percent of remittance transactions are sent through banks. Many immigrant workers are wary of established banking institutions; unfamiliar with the customs and faced with a language barrier; or have no experience with banks at all. Others are simply unaware that different remittance options are available.

Perceiving substantial opportunity, financial institutions around the world have increasingly shown interest in tapping into the potential of global remittances. Initially, money transfers are the primary financial need among immigrants and a remittance service offered at a competitive rate provides an entry point for banks into the immigrant market. Once established, remittances are an opportunity to create long-term client relationships leading to increased market share, income potential, and customer loyalty as worker wealth increases and remittance clients seek credit, car loans, and mortgages.

Further, in an age of globalization, companies are more and more dependent on global networks of customers, suppliers, and investors, and dependence on a global workforce and employee mobility is growing. As a result, companies increasingly need to offer global remittance services to employees as part of their banking packages, placing greater demand on cross-border payments activity and providing opportunities for the banks that can meet that demand.

Both banks and governments have an interest in channeling this payment activity into the banking system, creating new opportunities for banks that can develop competitive solutions quickly and cost effectively. But many banks lack a global retail payment capability. Varied payment systems, formatting standards, rules and regulations, and a lack of global standards regarding market practice and banking laws are also barriers for banks seeking to compete in this space. The gathering and distribution of payment-related information present other, multiple levels of complexity. For example, entities initiating



payments need to collect and maintain the necessary routing information to pay beneficiaries, given the differing requirements by country.

There are additional barriers to entry. Without an extensive correspondent banking network or the investment in technology to develop a global payments capability, banks lack the robust infrastructure needed to offer a cost-effective remittance solution, and the time and cost of establishing and maintaining a network and developing a remittance platform is prohibitive. Lacking that infrastructure, banks are confined to executing payments by wire. The cost and complexity of complying with Know Your Customer, anti-money laundering regulations, and other control activities add further complications.

To compete, banks need low-cost payment methods that enable them to offer sustainable competitive prices to their customers. Banks that are quick to market, with an easy-to-use service that simplifies the payment flow and lowers cost stand to benefit. The problem is how to bring this about.

- **The Private-Label Solution**

Private labeling can be a strategic alternative to building an in-house global remittance capability. It is a viable way to tap into the growing retail cross-border market; it can compress time to market and enable a bank to gain competitive advantages. Leveraging an established system eliminates the cost of development, maintenance, and ongoing investment, while providing access to the latest advances in technology.

- **Evaluating a Provider**

A provider should bring considerable experience and expertise to implementing a solution. It should offer a well-established, extensive correspondent banking network, the technology to automate the entire payment transaction, and a full spectrum of disbursement options. A solution should feature a flexible infrastructure that can scale to volume growth, new product developments, and continuously emerging market opportunities. It should integrate seamlessly with customer initiation points, including teller systems and online banking platforms. Payments processing should be a core business of the provider and it must provide efficiencies of scale and rigorous payment controls.



The Bank of New York Mellon solution:

- Is easy to use, allowing payments to be initiated through our existing banking platform.
- Is comprehensive, allowing access to multiple payment delivery options in local countries; and
- Utilizes The Bank of New York Mellon's extensive network of receiving correspondent banks around the world.

Currently, many providers offer service only from one country into another or only a few other countries, serving only established corridors such as US to Mexico or India. Our network of correspondent banks is one of the largest and most well maintained networks in the industry. Our global network includes 12 branches, 18 representative offices and more than 1,600 correspondent bank relationships.

Based on our strength in payment processing, technology, and correspondent banking, The Bank of New York Mellon can be your facilitator of remittances by linking correspondents worldwide. Those banks that establish a global remittance structure today will be best positioned to take advantage of the rise in global retail payments and increasing customer demand for new payment services in the years ahead. The Bank of New York Mellon's Remit Worldwide offering can bring that about.



Last year, foreign workers sent over \$225 billion to their home countries. With Remit Worldwide, our global remittance solution, your bank can participate in this vast market. Employing our international network of correspondent banks, we can help you transfer your customers' money almost anywhere - quickly and accurately. You'll attract new customers, build new revenue, and gain a competitive advantage. In everything we do, in financial markets around the world, our expertise and collaboration put the highest goals within your reach.

To learn more, call us at 800-424-3004. And join Michael Bellacosa as he presents, "Remittances: Right here, right now!" at Sibos, October 3rd.

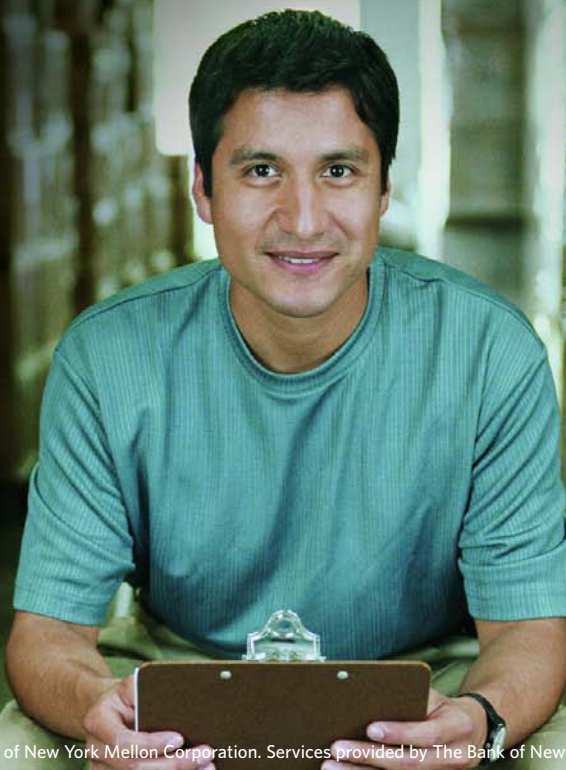
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**Your customers work hard for every dollar.
But their families need pesos, rupees, and yen.**

➤ Who's helping you?



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The Bank of New York Mellon at SIBOS...

Converse with our thought leaders at Booth No. C44.

Learn about industry issues from our speakers:

Monday, October 1

11:00 a.m.: *Tim Keaney*, co-chief executive officer of BNY Mellon Asset Servicing, will speak about critical success factors for the 21st century funds industry

11:00 a.m.: *Alan Goldstein*, managing director and chief information officer for BNY Mellon Asset Management, and a member of the SWIFT board of directors, will be a panelist discussing new security and relationship management features of SWIFTNET Phase 2.

Wednesday, October 3

2:00 p.m.: *Michael Bellacosa*, head of global payment services product management, will moderate a discussion on how global financial institutions and SWIFT are working together to deliver workers' remittance payments through a new multilateral framework. The session will also cover opportunities in the sending and receiving markets.

One Wall Street
New York, New York 10286
1 (800) 424-3004
www.bnymellon.com/products/treasury

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