

Foreign Exchange Payments



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Sanctions

Screening

Banks should establish Global Operating Standards to be applied to all products including FX.

All settlements arising from FX, FX Option and Money Market trades should be subject to sanctions screening. Apart from exceptional circumstances, transactions are systemically screened. The full payment message is handed off to a screening application prior to release by the product or payment processor. If the screening application determines a transaction to be potential a hit then it will then be flagged for manual review.

All payments should be subject to sanctions screening protocols as per compliance guidelines. Outgoing payment messages MT103's, 202's & 210's and incoming and out going MT199 and 299 messages should be checked against the Global Sanctions List (s) for potential hits matching the countries, places, companies, vessels and names. All hits should be reviewed as soon as possible to ensure currency settlement cut-offs are met.

Sanctions

Evidence of Screening

Where the FX Operations product processor interacts with a sanctions system a full audit trail of sanctions checking should be maintained. Where Operations rely on another department the audit trail should maintain within the downstream application.

Metrics

FX Operations should maintain and publish metrics relating to all True Hits and any False Match Disposition Errors. A count of True Hits should be recorded monthly. Match Disposition Errors should be reported on the day they are discovered.

Third Party Payments

FX Third Party Payments are payments or wire transfers whereby the final Beneficiary is external to the underlying client involved in the FX transaction.

There are *limited circumstances* in which it may be necessary to facilitate third party payments/transfers in connection with the firm's role or obligations in connection with specific transactions, these include (but not limited to):

- Fees a client owes to law firm(s), trustees, ratings agencies, clearing agents, and other infrastructure entities.
- Obligations owed to creditors, guarantors, or sponsors (i.e., disbursement of proceeds).
- Payments related to loans administered by Citi (e.g., payments to a law firm or service providers named in loan documentation or other authorized documentation provided by the client).
- Payments to subsidiaries or borrowers where the subsidiary or borrower is named in loan documentation.
- Payments to a custodian in a tri-party agreement.
- Payments to service providers Citi has retained to support transactions (e.g., storage and shipment vendors for physical commodities transactions).
- Payments to a Third Party SSI systemically retrieved from OMGEO Alert (updated and maintained by the client / counterparty).

Third Party Payments

Some Third party payments/transfers should generally not be permitted. This includes (but not limited to):

- Payments for clients that appear to be personal in nature (e.g. payment of school fees, credit card bills, etc).
- Payments or transfers for financial institutions (FI) clients – particularly banks - where the client appears to be acting on behalf of their underlying client. The concern here is that providing these third party payments services to help the bank serve its own clients is a substitute for correspondent banking services.

Any requests for third party payments or transfers that fall outside of the client's expected activity, do not appear to have an economically rational purpose, or otherwise appear to be suspicious, should be escalated promptly.

Manual Payments

Manual Payments Processing (MPP) is the manual processing/amendment by staff of any settlement instruction, movement of cash where there is a change in different beneficial owners.

Processing Standards

- Maker/Checker must be in place.
- Staff cannot act as both Maker and Checker on the same transaction.
- The Checker should not be a subordinate of the Maker.
- Each instruction, including ad-hoc requests must be authenticated either via call back or, authenticated source. for non-third party payments, a pre-authenticated settlement instruction should be used where possible.
 - Authenticated sources include SWIFT, Misys and Omgeo Alert.
- The Checker should ensure that what was reviewed, and the information used to authenticate the instruction is evidenced.
- In the event an exception to the above is required, then it should be approved by management and should be recorded.

Manual Payments

New or Amended Standard Settlement Instructions (SSI)

- SSI should be stored in a secure electronic system, subject to Maker/Checker controls. Any Exceptions should be logged.
- Any SSI updates should be subject to systemic Maker/Checker; any Exceptions to this should be logged.
- All SSI should be authenticated via call back, or an authenticated source.
 - Authenticated sources include SWIFT, Misys and Omgeo Alert.
- Where Signature Verification is standard practice, this should not be the only control used to authenticate an Instruction.
- The Checker should ensure that what was reviewed and what information was used to authenticate the instruction is evidenced.

Segregation of Duties

The notion of requiring more than one person to complete a specific task, thus reducing risk associated with fraud and individual error, i.e. each stage of the Maker / Checker / Verifier procedure in Manual Payments must be completed by separate individuals.

Other Considerations

Know Your Customer

- Procedures and processes should be in place to ensure that due diligence has been taken before on boarding a client to the banks trading and settlement platforms.
- Procedures should be in place to ensure documentation is regularly reviewed and should updated in the light of change to a clients status.
- Processes should be in place to ensure current KYC status is reflected in the trading platforms and to prevent trading without management approval in the case of a deficiency.
- Customer onboarding and KYC are performed independently of FX trading/sales and Operations.

Anti-Money Laundering

- Rigorous processes should be in place to monitor the trade execution and settlements and may include:-
 - Third Party Payments
 - Transfers to high risk industries / countries
 - AML monitoring is performed independently of FX trading/sales and Operations.