[Slide 1] – Title

Welcome to the second module of the Course Master Cross Border Payments. This module is about the Customer credit transfer initiation and the related messages, the M T 101 and the MX Pain one. Corporations use these messages in domestic and international payments. And in this module, we will see that these messages can be used in many contexts and for multiple purposes. Let's begin right away.

[Slide 2] – Contents

First, we review the structures of the M T 101 and MX pain one messages. Then we look at the possible use cases of these messages by corporations. After that, we make a detailed analysis of few interesting examples. We will see how corporations use these messages to pay from multiple debit accounts, from a subsidiary account or to pay on behalf of subsidiaries. Sample files in M T formats and MX formats are provided for each example. We encourage you to download them, compare them and read the comments provided in the MX messages very carefully.

[Slide 3] – SWIFT MT 101 Text block structure

The M T 101 is called Request for Transfer. It is used to instruct the originator Bank or account servicing financial institution, to debit the originator account or an account that the originator has explicit authority to debit, and credit one to many beneficiary accounts either domestically or internationally. So, the M T 101 can be used in domestic context like many other SWIFT messages. M T 101 does not necessarily mean cross border payments.

The structure of the block 4 of a M T 101 is composed of two sequences: The Sequence A, General Information, and the Sequence B Transaction Details.

The Sequence A, General Information, is a single occurrence mandatory sequence and contains information to be applied to all individual transactions detailed in the sequence B.

Therefore, the sequence A must be present and only one occurrence is allowed. It contains information about the debit side of the message that applies to all sequence B transaction details. It carries fields like Sender's Reference, Instructing Party, Ordering Customer, Sending Institution, Requested Execution Date.

The Sequence B Transaction Details is a repetitive sequence; each occurrence provides details of one individual transaction. Fields which appear in both sequences are mutually exclusive. That means they cannot be at the same time in the Sequence A and in the sequence B. When such fields are provided, they must be present in one of the two sequences.

The Sequence B Transaction Details must be present at least once. Debit side information is provided here when it is not given in the Sequence A, and applies to a specific transaction.

Therefore, the sequence B can carry information about the debit side as well as the credit side of the message. It contains fields like Transaction Reference, Currency, Transaction Amount, Instructing Party, Ordering Customer, Intermediary, Account with Institution, Beneficiary, Remittance Information, and so on.

Now let us look at the MX pain one structure.

[Slide 4] – MX pain.001.001.11 message structure

The MX pain one is called Customer Credit Transfer Initiation message. It is sent by the initiating party to the forwarding agent or debtor agent. It is used to request movement of funds from the debtor account to one or multiple creditors. Payment transactions may result in an electronic cash transfer to the creditor account or in the emission of a cheque.

The pain one message is composed of three building blocks: The group header, the payment information and the Supplementary Data.

The Group Header block is mandatory and present once. It contains elements such as Message Identification, Creation Date And Time, Number of transactions, Initiating party, Forwarding agent.

The Payment Information block is mandatory and repetitive. It contains, among others, elements related to the debit side of the transaction, such as Debtor or Payment Type Information, and as many Credit Transfer Transaction Information blocks as necessary. Each Credit Transfer Transaction Information block contains, among others, elements related to the credit side of the transaction, such as Creditor or Remittance Information.

The Supplementary Data block is optional and carries additional data that cannot be provided in the structured elements and or any other specific block.

Currently, the latest version of the pain one available in the ISO 20 O 22 is the version 10. The ISO 20 O 22 will very likely adopt the version 11 that is the latest version in the MX standard. In the course, initiation to cross border payments, the subtle difference between the MX and the ISO 20 O 22 was presented. And that is clearly illustrated in this case.

[Slide 5] – How corporations use the MT101 / MX Pain.001

Let’s see how the SWIFT M T 101 message is commonly used by corporations.

On the figure, we see a corporation that sends a SWIFT MT101 or MX Pain.001 to a concentrating bank. That bank is called concentrating Bank because it receives all instructions provided in the message regardless of whether those instructions are to debit an account held by the receiving bank or an account held by another bank.

The concentrating bank can play the role of either a debtor bank or forwarding bank. It takes the role of a debtor bank for the instructions that are to debit an account that it holds. And it plays the role of a forwarding bank for the instructions that are to debit an account that other banks hold.

In the next page, we explain the four cases highlighted here.

[Slide 6] – How corporations use the MT101 / MX Pain.001

In our example, the concentrating bank issues four messages after processing the SWIFT M T 101 or MX pain one from the corporation. Now let us take a closer look at what happens in each case.

In the first case, the concentrating bank plays the role of forwarding agent. It forwards another SWIFT MT101 or MX pain one. This message contains all the instructions that are to be forwarded to the receiver, the Debtor Bank. We assume there is only one instruction in the message that it receives. The Debtor Bank is the one that holds the account to be debited and therefore the one that can execute the instruction. A subsidiary of the ordering customer, sender of the initial instruction, has an account with the debtor Bank. The parent company is a party authorized by the account owner, its subsidiary, to send instructions. Corporation A B is the initiating party and therefore provides the account of the subsidiary as Ordering customer account in the Message. Note that the Debtor Bank processes the MT101 and forwards a MT103 to the creditor Bank. But it is totally possible to forward a MX Pacs eight to the Creditor Bank too. And that will happen in the future. Many companies that are not able to initiate payment instruction in MX formats, will keep sending instruction in M T format.

The bank will process the instruction and send a pacs eight. There is no obligation to send a MT103 if the payment was received in M T format. Last point. In the case the debtor bank would receive many instructions in the SWIFT M T 101, it may send multiple M T 103 or MX pacs eight, depending on where the beneficiaries of the instructions are located.

Now let us look at the case 2. Here the concentrating bank plays the role of forwarding agent. It forwards another M T 101 or MX pain one message. Like above, this message contains all the instructions that are to be forwarded to this receiver, the Debtor Bank. We assume there is only one instruction in the received M T 101. This time, the debtor Bank is simply another Bank where Corporation A B has an account. As a result, the debtor Bank processes the instructions and debits the account of corporation A B. Then it sends an interbank customer credit transfer message to the creditor bank.

Here is an interesting remark about this second case. There are situations, where the creditor Bank can be the concentrating Bank itself. The Debtor Bank is then requested to repatriate funds held in an account it holds to an account held by the concentrating Bank. This is done usually for cash management purposes with a specific code in the MT101 or MX pain one. One example is analyzed later in this module.

Let’s move to the case 3. Here the concentrating bank sends an interbank customer credit transfer to an intermediary Bank. The concentrating bank plays the role of debtor Bank and therefore debits Corporation A B’s account that it holds and sends the funds to the intermediary bank which will then send it further to the Creditor Bank. This can be for instance an international payment where settlement happens through a correspondent bank. Remember that M T 101 and MX pain one can be used for domestic and international payments.

Now we get to the case 4. This is a quite simple case. The concentrating bank, in the role of Debtor Bank again, sends an interbank customer credit transfer directly to the Creditor Bank. It debits Corporation A B’s account and credits the creditor bank. The creditor bank can be another bank inside a bank Group, or a bank reachable through

a domestic interbank clearing system. For practical reasons, the creditor is not represented. But there is a creditor.

It is quite interesting to see the different cases where M T 101 and MX pain one can be used.

[Slide 7] – Quiz with response

[Slide 8] – MT101/MX Pain.001 with two domestic transactions (2/4)

Now we want to go deeper and look at the content of SWIFT MT101 and MX pain one messages. Reading the specifications of the messages is of great help to understand the messages content. There are links available on the resources page for the SWIFT MT101 and the MX pain one specifications. Take few minutes to read the specifications if you have not done it yet.

Now we will look at a payment instruction transmitted with the M T 101 or the MX pain one and which contains two domestic transactions: one transaction where the beneficiary account is held by the debtor bank and one transaction where the beneficiary account is held by another bank in the same country. In our example, the message is sent by Saint Gobain Corporation, a french multinational corporation that has an account in GBP with Royal Bank of Scotland.

Sample files are provided, and we encourage you to download and go through them. Particularly the MX pain one file where you find a lot of interesting and insightful comments.

[Slide 9] – MT101/MX Pain.001 with two domestic transactions (2/4)

Here is the content of the MT101 message. If you took the course initiation to cross border payments, then you should already be familiar with SWIFT messages, the header and trailer blocks and the content. Look at the sequence A and the first occurrence of the sequence B of the messages.

Then open the sample files and do the same. Note that there is no field 57a in the first occurrence. Now let us look at the content of the second occurrence.

[Slide 10] – MT101/MX Pain.001 with two domestic transactions (3/4)

Here we have kept the header information for the purpose of clarity. In a SWIFT message the headers are not repeated. Now look at the second occurrence of the sequence B.

We see some differences with the first occurrence. The Transaction Reference is specific to each occurrence. The field 57a is present and the details of charges are shared.

Have you check the corresponding MX pain one message and read all the comments inside? If not done, please do it now before we move forward.

[Slide 11] – MT101/MX Pain.001 with two domestic transactions (4/4)

Here are some interesting remarks about this SWIFT MT101 message.

The first remarks are about the main purpose of the message. The Sender, Saint Gobain is instructing its bank, to debit his account and credit the account of two beneficiaries since the order contains two transactions. The execution of this order may result either in one single debit with the total amount of all transactions, or in two debits for each transaction on the account provided in the field 50H of the sequence A.

As second remarks, there is no field 50a, the Instructing Party, in the message neither in the sequence A nor in the sequence B. The sender of the message is the owner of the account to be debited. If that were not the case, the sender would play the role of instructing party and the field 50a would have been populated.

The next remarks are about the Field 57A. In the first transaction, the field 57A is not provided. The sender did that because the beneficiary account is held by Royal Bank of Scotland, the debtor Bank. Consequently, this transaction results in a book transfer for Royal Bank of Scotland.

The sender has indicated the field 57A in the second transaction because the beneficiary account is not with the Debtor Bank, but with another Bank, Barclays, which is the account with institution. Royal Bank of Scotland must therefore send a M T 103 to Barclays either through SWIFT or through a local clearing system. A MT 103 must be used because sender and receiver are financial institutions, and the transaction involves end customers that are not financial institutions.

To finish, we can mention the Details of charges. The Details of charges take the value OUR in the first transaction and shared in the second transaction.

OUR means the transaction charges are to be borne by the ordering customer. The ordering customer pays charges to ordering bank, intermediary bank(s) and receiving bank.

SHARED means the charges are shared between Ordering and beneficiary customer. Ordering customer pays charges to ordering bank. Beneficiary pays charges to the receiving and other intermediary banks.

[Slide 12] – Intermediary Quiz

[Slide 13] – MT101/MX Pain.001 usage to pay from multiple debit accounts (1/3)

We move to the second example. It is about the usage of the M T 101 or Pain one to pay from multiple debit accounts. The key to understand how a debtor can pay from multiple accounts lies in the usage of the field 50a in the sequence B.

In the MT 101 Network validated rule C3, we read the following: “If there is only one debit account, the ordering customer must be identified in field 50a in sequence A.

Conversely, if multiple debit accounts are used, they must be identified for every transaction in field 50a of sequence B.
Consequently, field 50a, must be present in either sequence A or in each occurrence of sequence B, but must never be present in both sequences, nor be absent from both sequences."

This is pretty clear. This shows us that it is important to read the rules that are provided in the SWIFT specifications. They contain valuable information.
Now let us look at the message content.

[Slide 14] – MT101/MX Pain.001 usage to pay from multiple debit accounts (2/3)

The content of the MT101 message is like the one we analyzed in the previous example except that here the field 50a is present in the sequence B.

We encourage you to download and open the file samples in M T 101 and MX Pain one formats. Compare them and read the comments provided in the MX Pain one very carefully.

Now let us look at the content of the second occurrence.

[Slide 15] – MT101/MX Pain.001 usage to pay from multiple debit accounts (3/3)

In the second occurrence, we see that the field 50a is provided. But the account is not the same as in the first sequence. One account is debited for the first transaction and another account is debited for the second transaction. And that is how the debtor can pay from multiple accounts.

[Slide 16] – Intermediary quiz

[Slide 17] – MT101/MX Pain.001 usage to pay from a subsidiary account (1/3)

The M T 101 or MX Pain one can be used for many purposes. We consider another example here. We see how parent companies use the MT101 SWIFT Message to pay from the accounts of their subsidiaries. This is a feature that is very useful for multi-subsidiary corporations.

The parent company is Compagnie de Saint Gobain located in France. Saint Gobain France received an invoice for goods or services provided by a company located in Australia that we call Beneficiary Company. Saint Gobain France wants to pay the invoice from the account of its subsidiary, Saint-Gobain Abrasives, which operates in Australia. There can be many reasons for that. The parent company may not have a bank account in Australia, or it may decide to use the subsidiary account to optimize liquidity usage.

The Subsidiary of Saint-Gobain in Australia has authorised the parent company Saint Gobain France to make payments from its account. The authorisation is registered with the local bank.

Now let us look at the content of the message.

[Slide 18] – MT101/MX Pain.001 usage to pay from a subsidiary account (2/3)

We have a message with one sequence A and one sequence B. In the sequence B,

instructing party and ordering customer are provided.

The instructing party is the parent company, and the ordering customer is the beneficiary. The account number is provided with ordering customer information, since it is owned by the ordering customer.

You are probably wondering how this information is provided in the MX pain one. Open the sample files in M T and MX formats, compare them and read the comments. As usual, we have many remarks about this message. They are provided in the following.

[Slide 19] – MT101/MX Pain.001 usage to pay from a subsidiary account (3/3)

There are many interesting remarks about this message. First, let us consider its main purpose. The Sender, Saint Gobain wants to pay an invoice to a company in Australia from its subsidiary's account in that country. Saint Gobain instructs the Receiver, BNP Paribas, to forward the payment to the Bank that will execute the instruction. This is generally done with a M T 101 containing multiple sequence B transactions details. But we consider a MT101 with one sequence B occurrence to make things simple.

The Receiver of this message does not hold the account to be debited for the payment. Therefore, it plays the role of a forwarding bank. It forwards the MT101 SWIFT Message to National Australia Bank, the debtor bank that holds the ordering customer account and can execute the instruction. The debtor bank executes the payment and sends a M T 103 or MX pacs eight or a local clearing system message to the beneficiary bank.

The field 50 L, is the field where the instructing party information is provided. The instructing party can do this only if it has an authorization from its subsidiary to make payments from its account. That means the debtor bank knows the parent company and has a formal approval from its customer, the subsidiary.

In some countries, the parent company must own at least 50% of the subsidiary company. Otherwise, it is not considered as a subsidiary of the parent company, which is therefore not allowed to pay from the subsidiary's account. In other countries, paying from a subsidiary's account is not allowed even if the parent company owns more than 50% of the subsidiary.

The fields 52A and 57A specify the national clearing code, called Bank State Branch code in Australia, and the BIC of the bank holding the Ordering Customer account. The BSB code unambiguously identifies the branch that sends or receives the instruction. Certain Australian Banks request senders to provide the BSB code preceded by the country code. However, note that the forwarding bank uses the BIC code to route the MT101 to National Australia Bank over the SWIFT network. The field 57A specifies the Bank that the beneficiary has an account with. If the beneficiary account was held by National Australia Bank, the field 57A would not be needed in this message.

[Slide 20] – Intermediary Quiz

[Slide 21] – MT101/MX Pain.001 usage by parent company to pay on behalf of

subsidiaries (1/4)

The M T 101 or MX pain one can also be used by a parent company to pay on behalf of its subsidiaries. And the key to understand how it works lies again in the field 50a Instructing Party. In the SWIFT documentation, we read the following under the usage rules of that field: “This field must only be used when the instructing customer is not also the account owner.” The figure depicts the example of a multinational corporation that wants to pay invoices for its subsidiaries located in different countries. The payment is effected from the Bank account of the multinational corporation.

The receiver of the payment should understand that the payment is for the invoice sent to the subsidiary even if it is the parent company that makes the payment.

Let us look at the message content.

[Slide 22] – MT101/MX Pain.001 usage by parent company to pay on behalf of subsidiaries (2/4)

This is the first part of the message. The fields Ordering Customer and Instructing Party are provided in the message. The Ordering Customer is present in the sequence A of the message. And the Instructing Party is present in the sequence B and populated with the name of the subsidiary for which the payment is made.

You can already open the messages in M T and MX formats and compare them. Let us see how the remaining part of the message looks like.

[Slide 23] – MT101/MX Pain.001 usage by parent company to pay on behalf of subsidiaries (3/4)

This is the second part of the message. We see that the field Instructing Party is present in each of the sequences B and populated with the name of the subsidiary for which the payment is made.

Take the time to go through the MX pain one file and read the comments. You get precious information about other message elements available inside.

At this stage we see that it is important to understand how the fields Ordering Customer and Instructing Party can be used. We consider few other remarks in the following.

[Slide 24] – MT101/MX Pain.001 usage by parent company to pay on behalf of subsidiaries (4/4)

As usual, there is more in this message than meets the eye. Here are few remarks.

The Sender Publicis sends a M T 101 or MX pain one with multiple transactions. And the instruction should be executed from a single debit account. The ordering customer account is therefore present in the sequence A. After execution, the funds for all the transactions are debited from the ordering customer account. Each sequence B occurrence contains the field 50a Instructing Party which specifies the subsidiary company on behalf of which the parent company, sends the payment instruction.

In case the instructing party would not be present, the sender would be paying for itself.

What can we say about the 3 transactions? The beneficiaries of the first two transactions are located respectively in Switzerland and in Italy. The two countries are in the SEPA Area and the transactions are in Euro currencies and with shared fees. So, both transactions can be settled as SEPA Credit Transfers through a local clearing system like STEP2.

The beneficiary of the third transaction is in the USA. The amount of the transaction is in

USD currency. Since the ordering customer account is in EURO, a currency exchange from EUR to USD is needed to carry out the transaction. There are two possibilities for the ordering customer. Either he sends the order to the bank and let the bank handle the FX Deal, or he takes care of the FX deal and provides the related information to the Bank. This second option was chosen and the ordering customer provided the reference of that deal in the instruction.

Note that to avoid currency conversion and the related fees, a company would rather pay using a USD account provided there is enough liquidity available.

The Debtor Bank then settles the transaction through its correspondent in the USA. It is assumed that a serial payment is used. But it is possible to use a cover payment too. In that case, the MT103 announcement is sent directly to the Beneficiary Bank and the MT202 Cover is sent to the correspondent. Serial and cover payments are analyzed in the course Initiation to cross border payments.

[Slide 25] – Intermediary Quiz

[Slide 26] – MT101/MX Pain.001 usage for funds repatriation (1/3)

There is another usage of the M T 101 or MX pain one that we should be aware of. It is its usage for funds repatriation. Funds repatriation simply means to move the funds available on one account of a company to another account of that company held either by the same financial institution or by another financial institution. Funds repatriation is performed for cash pooling inside a company or a group of companies. Corporations resort to cash pooling to optimize the liquidity usage.

We will consider a simple example to explain the basic concepts behind funds repatriation and cash pooling.

Essilor is a multinational corporation with multi-bank relationship in Europe and worldwide. In the example, we consider two accounts owned by Essilor: one account is with BNP Paribas in France and the other account is with Dresdner Bank in Germany. Funds available on the Dresdner Bank account are to be repatriated to the BNP Paribas account. This happens through a M T 101 or a MX Pain one message.

The BNP Paribas account is called centralized account, master account or leader account. The Dresdner Bank account is called secondary account or slave account.

Let us look at the content of the message.

[Slide 27] – MT101/MX Pain.001 usage for funds repatriation (2/3)

You are now quite familiar with this message. So, you are probably wondering which fields in the messages are used to provide the instructions related to funds repatriation. The answer is the field 23E, the Instruction Code. That field is present in the Sequence B Transaction Details and can be repeated. In the message we are considering, you can see it twice.

Detailed explanations will be provided later. We encourage you to open the sample files in M T and MX formats and compare them as you have done so far. Read the valuable comments in the MX pain one message.

[Slide 28] – Intermediary Quiz

[Slide 29] – MT101/MX Pain.001 usage for funds repatriation (3/3)

Now let us conclude with the remarks about the M T 101 or MX Pain one used for funds repatriation.

Essilor wants to repatriate funds from its Dresdner bank account to its BNP Paribas account. So, it instructs the receiver of the M T 101 to request Dresdner bank to transfer funds available on its account. The amount should be credited on Essilor's account with BNP Paribas. BNP Paribas forwards the M T 101 instruction since it does hold the account to be debited. Dresdner bank, as debtor Bank, executes the instruction and sends a MT103 to BNP Paribas, the creditor Bank. That is pretty interesting.

Another interesting point is about the instruction codes. The sender provides two instruction codes in the message. The first one C M Z B is the most important one. It is used to Zero balance an account. It is the one informing the debtor bank that the instruction is for funds repatriation. The presence of this code allows to put a zero amount in the field 32B.

The second instruction code I N T C indicates that the transfer is between accounts of the same company or between accounts of companies belonging to the same Group.

The two instruction codes are used for cash pooling. That is why the accounts involved in funds repatriation must belong to the same company or to the same group. When the accounts are with different banks, generally the Banks involved sign an agreement. Parent company and the subsidiary companies must sign an agreement too before performing cash pooling transactions. However, note that regulations about Cash pooling are various and multiple in the different countries. There are countries where Cash pooling is not allowed at all. In other countries, Cash pooling can be carried out only under certain conditions.

That is the end of this module. Thank you for your attention. Please take the module quiz to review all the key concepts we saw in this module. You can use the menu on the top right to go to a topic you want to review.