For Immediate Release

Payment services and AML directives address regulatory challenges with third party providers

New academic research from the SWIFT Institute analyses the latest payments regulations, identifying gaps and consequences with recommendations to help clarify new policies

Brussels, 23 November 2015 – The SWIFT Institute announces the availability of a new paper analysing the regulation of third party payment (TPPs) providers and virtual currencies. The paper, entitled "The evolution of third party payment providers and cryptocurrencies under the European Union's PSD2 and AMLD4", critically assesses current legislation and ongoing legislative initiatives for their inclusion of TPP's. It also sets out the potential for the regulation of cryptocurrency in terms of combatting money laundering and terrorist financing.

The research focuses on regulatory developments within the EU, namely the Payment Services Directive (PSD2) and the fourth Anti-Money Laundering Directive (AMLD4), but also includes an expanded view into the US and Asian markets.

"In the last decade, the financial landscape has changed considerably under the influence of new technologies and communication methods," says Peter Ware, Director, SWIFT Institute. "All over the world, new legal frameworks have been adopted to bring non-credit institution actors under regulation. However, there are two major new developments for which the legal framework is less clear and those are third party payment providers and virtual currencies."

According to the research, TPPs allow consumers to make online payments without the need for a credit card by establishing a "*link between the payer and the online merchant via the payer's online banking module".* They do not require the consumer to open an account directly with them. Instead, they gather information on the consumer's existing bank accounts and present that information in an integrated manner. In doing so, they gain possession of a significant amount of sensitive information, by providing a gateway from which consumers log in to their bank accounts using their unique identifiers and credentials.

Virtual currencies are mainly used in payment systems that do not rely on traditional actors such as banks and payment service providers. The most notable example is cryptocurrencies – such as bitcoin – which are decentralised, and use pseudonyms for their transactions.

The research concludes that whilst the PSD2, AMLD4 and other regulations are a step in the right direction, certain aspects remain unclear and need further attention. As a result, the report provides policy recommendations for both regulators and financial practioners.

Regulator recommendations

1. Address remaining ambiguities
2. Harmonise EU legal framework
3. Coordinate global regulatory initiatives
4. Avoid a nationalist approach to virtual currencies
5. Adopt a rational outlook on virtual currencies

Financial practitioner recommendations

6. Look beyond the disruptive forces
7. Need for compliance

8. Do not dismiss virtual currencies wholesale
9. Mind the Block Chain

Research was undertaken by Nathan Van De Velde, Niels Van De Zande and Peggy Valcke at Belgium's KU Leuven, and was recently presented at SWIFT's annual Sibos conference in Singapore.

To download a copy of the paper, visit www.swiftinstitute.org/papers

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NOTES TO THE EDITOR

The Directive on Payment Services (PSD2), which was adopted by the European Parliament in October 2015, is EU legislation that enhances consumer protection, promotes innovation and improves the security of payment services.

The fourth Anti-Money Laundering Directive (AMLD4), which was finally adopted in May 2015, is part of a package of measures aimed at preventing the use of the financial system for the purposes of money laundering or terrorist financing.

About SWIFT Institute

The SWIFT Institute, managed by SWIFT, funds and publishes independent research bringing together academics and practitioners from the financial services industry. The research is conducted by academics and senior industry professionals and focuses on topics important to the global financial community. The goal of the Institute is to extend the understanding of current practice and future needs in global financial services. The Institute fosters independent research by giving grants, access to research data and publication opportunities for approved projects. The Institute also acts as a catalyst for bringing the SWIFT community and academics together to explore ideas, share knowledge and extend mutual understanding of financial services.

The research covers various aspects of transaction banking, including the following areas: Payments, Clearing / Settlement, Cash Management, Trade Finance, Trust and Securities.

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About SWIFT

SWIFT is a member-owned cooperative that provides the communications platform, products and services to connect more than 10,500 banking organisations, securities institutions and corporate customers in over 200 countries and territories. SWIFT enables its users to exchange automated, standardised financial information securely and reliably, thereby lowering costs, reducing operational risk and eliminating operational inefficiencies. SWIFT also brings the financial community together to work collaboratively to shape market practice, define standards and debate issues of mutual interest.

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