

In the name of God.

Article No.: Eight

Subject:

Offline Banking Network in International Banking System.

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(The reference language for this article is Persian and it is only translated to English language.)

This article is only for providing some basic knowledge, definitions, and understanding at the public level and there won't be any technical terms.

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Financial Action Task Force (FATF):

Financial Action Task Force is the supervising on money laundering and terrorist financing. This inter-governmental and international organization creates and defines standards to stop illegal and damaging activities in financial areas. The **FATF**, as a policy-making body, seeks to build the political will needed to bring about national legal and regulatory reform in these areas.

Its members, with more than **200** countries, have established a united and committed jurisdiction to implement the **FATF** recommendations or **FATF** standards, which ensures a coordinated global response to prevent organized crime, corruption, and terrorism. **FATF** helps governments find and seek money from criminals who trade in illicit drugs, human trafficking, and other crimes, and seeks to stop funding weapons of mass destruction.

The **FATF** examines money laundering and terrorist financing techniques and is constantly raising its standards to address new risks, for example, the regulation of virtual assets, which have expanded with the popularity of digital currencies. It also monitors countries to ensure full and effective implementation of **FATF** standards and accuse countries that do not comply.

Society for Worldwide Interbank Financial Telecommunication (SWIFT):

Legally known as **S.W.I.F.T. SCRL**, is a Belgian cooperative association that acts as an intermediary and executor of financial transactions between banks around the world. It also sells software and services to financial institutions, primarily for use on its **SWIFTNet** platform and issuing Business Identifier Code (**BIC**) that is commonly known as SWIFT CODE.

SWIFT system doesn't execute payments but sends pay orders that are settled using correspondent accounts. For making transactions, any organization must have a relationship with a legal financial institution, usually a bank or through affiliation with at least one bank. While Swift transmits financial messages in a very secure manner, it does not hold accounts for its members and does not make any settlements.

Until **2018**, about half of the foreign transactions happened through the SWIFT system, and in **2015**, SWIFT covered more than **11000** financial institutes in more than

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200 countries, averaging **32** institutes and millions of messages every day (comparing to **2.4** million messages in **1995**).

Although **SWIFT** is used widely all over the world but it has been criticized for its inefficiency; in **2018** Financial times of the **UK** mentioned that because this transaction is going through multiple banks prior the delivery to the receiving bank, this makes it not only expensive but time-consuming but also the final delivered amount to the beneficiary is unclear as well. Hence, **SWIFT** introduced a new and efficient system called Global Payment Innovation (**GPI**), which claims to be accepted by **165** banks and completes half of the payments in **30** minutes. Another criticism of this system is that makes the US able to supervise the transaction and, in some cases, even interfere in them.

As a cooperative association under Belgian law, Swift is owned by its member financial institutions. Headquartered in La Hulpe, Belgium, near Brussels, its main building was completed in **1989**.

The Depository Trust & Clearing Corporation (DTCC):

DTCC is a financial services company that provides settlement services for clean accounts and it exchanges securities on behalf of buyers and sellers and acts as an international and central depository of securities by providing security to securities.

DTCC in **1999** established as a holding to combine "The Depository Trust Company" and "National Securities Clearing Corporation (**NSCC**)". The company, under the ownership and guidance of the user, simplifies the processes in the safe, automated, centralized, standardized, and simplified investment markets, and also, through its subsidiaries, provides settlement, clearing, and information services for stocks, corporate and municipal bonds, investment units, trustees, government and mortgage-backed securities, money market instruments and over-the-counter derivatives, and also manages transactions between mutual funds and insurance carriers and related investors.

In **2011**, **DTCC** settled approximately **1.7** quadrillion Dollars which made them the biggest fund processing organization in the world.

DTCC has many subsidiaries that we are not going through in these articles.

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Depository Trust Company (DTC)

Most major US brokers and banks are full **DTC** holders, meaning they hold securities in the **DTC**. The company appears in the publisher's stock records as the sole registered owner of the securities deposited with the **DTC** and holds the "interchangeable box" of the securities deposited, meaning that there are no specific identifiable shares that are directly owned by **DTC** participants. Instead, each participant has a proportionate share of the total number of shares of an individual publisher held in the **DTC**. Likewise, each client owns a **DTC** participant, as a sole proprietor, over the shares in which the **DTC** participant has an interest.

Because securities held by the **DTC** are to the benefit of participants and their customers, often the issuer and its transfer agent must interact with the **DTC** to facilitate dividend distribution.

Know Your Customer / Know Your Client (KYC)

KYC and **KYC** instructions in financial services are professionals trying to verify the identity, appropriateness, and risks of maintaining a business relationship. Used to ensure that their proposed customers, agents, consultants, or distributors are compatible with anti-bribery and ant money laundry and are, in fact, what the customer claims to be. Bankers, insurers, export creditors, and other financial institutions are increasingly demanding of their customers to provide accurate information, initially applicable only to financial institutions, but now non-financial industries, sellers of virtual assets, and even nonprofit organizations are required to commit.

KYC procedures defined by banks include all necessary measures to ensure the authenticity of customers and also, assess and monitor risks. These customer acquisition processes help financial institutions to prevent and identify money laundering, terrorist financing, and other illegal corruption schemes.

The **KYC** process includes verification of the identity card (**Passport**), face, seal, signature, and fingerprint verification and also verification of documents such as utility bills as proof of exact address and postal code.

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INTERNATIONAL BANKING - OFFLINE BANKING NETWORK

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Banks are responsible for complying with **KYC** instructions and anti-money laundering regulations to limit fraud, otherwise, they will face heavy fines if they do not comply.

NON-KYC:

In this type of deal either the seller or sender or receiver or buyer and in some cases both parties don't want to be identified for any reason. Although this type of deal is not really complying with the law, still there are companies, organizations and etc. that are like to do their deals in this method.

End of Article Number Eight.

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