Capital Markets Strategy
Essential inCights for the C-Suite

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Policy Note

Why the West has been hesitant to deny Russia access to SWIFT, and how that may change

The US and Europe have been hesitant to deny Russia access to the global SWIFT payments system given the extensive negative feedback loops to the global economy. However, Western leaders have indicated that adopting this "nuclear option" in global payments systems is very much "on the table" for a potential third round of sanctions from the US/EU/UK.

Society for Worldwide Interbank Financial Telecommunication (SWIFT)

Background on SWIFT:

- Founded in 1973
- Belgian-based cooperative society under Belgian law
- International payments system used by 11,000 financial institutions in 200 countries (exchanging an average of about 32 million messages per day)
- Accounts for approximately 50% of all high-value global cross border payments
- Communicates payments and securities transfers
- Majority of transactions settled in USD

Reasons SWIFT "Off the Table" For Now:

- Resistance from selected member states (i.e., Germany, Italy, Austria, Hungary)
- Negative feedback loops to global economy likely significant given Russia's size and global inter connectivity (EU's 5th largest trading partner, 40% of natural gas supplies)
- Targeted sanctions on Russian banks nearly as consequential without undermining global financial architecture
- Russian banks have access to less efficient but usable systems (i.e., SPFS, CIPS)
- Would adversely impact non-sanctioned sectors (agriculture, NGOs, humanitarian aid)
- Politicizing SWIFT risks negative longer term impact to USD as a reserve currency
  - May encourage China/Russia/EM to utilize block-chain alternatives
  - Creates incentives to reduce dependency on USD based monetary system
- May trigger significant Russian retaliatory response (i.e., cyber, energy access)

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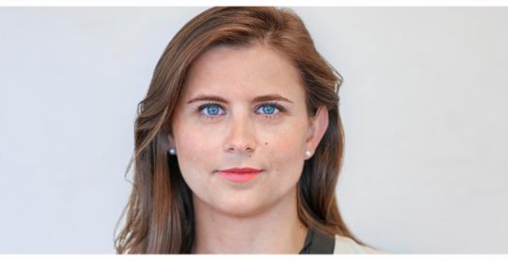

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