Russia's war on Ukraine: Cutting certain Russian banks off from SWIFT

As a system for standardised payment instructions and messaging services, SWIFT has become the basis for most global financial transactions. On 2 March 2022, the Council decided to cut seven Russian banks from the SWIFT network, as part of a wider sanctions package, including sanctions against Russia's central bank.

State of play

The Society for Worldwide Interbank Financial Telecommunication (SWIFT) is a global provider of secure financial messaging services, linking more than 11 000 banks worldwide. A co-operative society under Belgian law, it is owned by its members and headquartered in La Hulpe, Belgium. Formed in 1973, SWIFT has replaced the Telex technology then widely used by banks to communicate instructions relating to cross-border money and security transfers.

In 2021, SWIFT’s FIN messaging service recorded an average of 42 million messages per day, making it the backbone of the world’s financial infrastructure. Through SWIFT’s standardised messages, banks, custodians, investment institutions, central banks, market infrastructures and corporate clients can connect with one another to make payments or settle trades. SWIFT thereby sets the standard mandatory and optional data elements for payments, such as the business identifier code, known as a ‘BIC’ or ‘SWIFT code’.

Russia has developed its own SWIFT-type ‘Financial Messaging System of the Bank of Russia’ (SPFS). In operation since 2014, it has around 400 users and operates within Russia. Russia could also use other financial messaging systems, which nevertheless do not match SWIFT in market reach. One example is the Chinese ‘Cross-Border Interbank Payment System’ (CIPS), set-up in 2015, under the supervision of the People’s Bank of China.

EU response

Parliament had already called for the EU to consider ‘the exclusion of Russia from the SWIFT payment system’ to deter Russian authorities from further aggression, in its recommendation to the Council of 16 September 2021. On 2 March 2022, the Council of the European Union decided to prohibit the provision of SWIFT services to seven Russian banks: Bank Otkritie, Novikombank, Promsvyazbank, Rossiya Bank, Sovcombank, VNESHECONOMBANK (VEB), and VTB BANK. This will take effect from 12 March 2022. The prohibition will also apply to any legal person, entity or body established in Russia whose proprietary rights are more than 50% directly or indirectly owned by these banks.

Sberbank, Russia’s largest lender and Gazprombank were not included in the list of sanctioned banks, as both banks are the main counterparts for payments for Russian oil and gas. However, Sberbank was ordered to close its European arm by the European Central Bank (ECB), which assessed that the bank is likely to fail.

Other sanctions against Russia’s financial sector, taken on 2 March 2022, include:

- prohibition of investment or participation in projects co-financed by the Russian Direct Investment Fund (RDIF), the Russian sovereign wealth fund established in 2011;
- a ban on the sale, supply, transfer or export of euro denominated banknotes to Russia or to any natural or legal person, entity or body in Russia, including the government and the Central Bank of Russia, or for use in Russia.

The Council had already decided on sanctions against Russia’s central bank on 28 February 2022. These include the prohibition of all transactions related to the management of reserves or assets of the Central Bank of Russia. These sanctions will prevent Russia’s central bank from accessing a significant part of its reserves denominated in euros and dollars. The EU has also imposed further sanctions targeting individuals and economic sectors.