FSB FINANCIAL STABILITY BOARD

Press release

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FSB publishes progress report to G20 on action plan to assess and address the decline in correspondent banking

The Financial Stability Board (FSB) today published its *Progress report to the G20 on the FSB action plan to assess and address the decline in corresponding banking*. The progress report is being submitted to the G20 Leaders' Summit in Hangzhou on 4-5 September 2016, as requested by G20 Finance Ministers and Central Bank Governors in their communique following their July 2016 meeting in Chengdu.

The report describes progress in taking forward the four-point action plan published last November by the FSB:

- Further examining the dimensions and implications of the issue;
- Clarifying regulatory expectations, as a matter of priority, including more guidance by the Financial Action Task Force (FATF);
- Domestic capacity-building in jurisdictions that are home to affected respondent banks;
- Strengthening tools for due diligence by correspondent banks.

The ability to make and receive international payments via correspondent banking is vital for businesses and individuals, and for the G20's goal of strong, sustainable, balanced growth. A decline in the number of correspondent banking relationships is a source of concern for the international community because it may affect the ability to send and receive international payments, or drive some payment flows underground, with potential consequences on growth, financial inclusion, as well as the stability and integrity of the financial system.

The FSB established in March this year a Correspondent Banking Coordination Group (CBCG) to coordinate and maintain impetus in the implementation of the action plan. The CBCG's membership comprises senior representatives from international organisations and standard setters and national authorities in the FSB and its Regional Consultative Groups, and is chaired by Alexander Karrer, Deputy State Secretary for International Finance at the Swiss Ministry of Finance.

The CBCG and its members have made substantial progress towards implementing the FSB action plan:

- Following consultation, the Committee on Payments and Market Infrastructures (CPMI) has published in July 2016 the final version of its report on correspondent banking, with

recommendations relating to (i) know-your-customer (KYC) utilities; (ii) use of the Legal Entity Identifier (LEI) in correspondent banking; (iii) information-sharing initiatives; (iv) payment messages; and (v) use of the LEI as additional information in payment messages.

- The CPMI report includes an analysis using an extensive SWIFT data set. These data show that in recent years, although overall transaction volumes in correspondent banking have grown, the number of active correspondents has decreased across most regions, which suggests that there has been increased concentration in correspondent banking relationships.
- An International Monetary Fund (IMF) staff discussion note further discusses the evidence of a withdrawal in correspondent banking relationships and actions needed to address the issue.
- CBCG has designed a survey to address remaining data gaps, including the effects of the decline on specific categories of customers and the extent of the concentration of correspondent banking in specific markets.
- CBCG has proposed areas where regulatory expectations should be clarified; the FATF has made substantial progress towards issuing in October 2016 guidance on the application of its standards to correspondent banking, to be followed by further clarification by the Basel Committee on Banking Supervision (BCBS) of its own existing guidance.
- CBCG is assisting in the coordination of resources available to address technical assistance needs to support affected jurisdictions in conducting risk assessments and developing effective anti-money laundering and countering the financing of terrorism (AML/CFT) frameworks; CBCG is also encouraging private sector initiatives and supporting dialogue between the public and private sectors, for instance with roundtables and other events organised by FSB Regional Consultative Groups and the IMF and the World Bank.

A more comprehensive progress report will be published by end-2016. Work under the action plan will continue in 2017 to address these issues, including continuing to monitor changes in correspondent banking to assess whether the plan is having the intended impact.

Notes to editors

The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSB also conducts outreach with 65 other jurisdictions through its six Regional Consultative Groups.

The FSB is chaired by Mark Carney, Governor of the Bank of England. Its Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.fsb.org.