FSB FINANCIAL STABILITY BOARD

FSB action plan to assess and address the decline in correspondent banking

Progress report to G20 Summit of November 2018

16 November 2018

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FSB action plan to assess and address the decline in correspondent banking

Progress report to G20 Summit of November 2018

Executive Summary

The decline in the number of correspondent banking relationships in many countries around the world remains a source of concern for the international community because, in affected jurisdictions, it may impact the ability to send and receive international payments, or drive some payment flows underground, with potential adverse consequences on growth, financial inclusion and international trade. While impacts to the stability and integrity of the global financial system have not been identified, concerns remain at the national and regional level.

The Financial Stability Board (FSB) launched in November 2015 a four-point action plan[1] to assess and address the decline in correspondent banking relationships, coordinated by a Correspondent Banking Coordination Group (CBCG)[2]. The four areas of the action plan are:

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

This is the fifth progress report under the initiative.[3]

The international components of the action plan are now largely in place. To be effective, the solutions designed by international standard setting bodies and industry organisations need to be implemented in practice by national authorities and banks. The CBCG will also continue to assess the changes in correspondent banking activity, monitor the effective implementation of the action plan components, and facilitate the effective delivery of technical assistance (TA) to countries in need of improving their domestic frameworks on Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT).

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1 http://www.fsb.org/2015/11/report-to-the-g20-on-actions-taken-to-assess-and-address-the-decline-in-correspondent-banking/ of 6 November 2015.

2 The CBCG's membership comprises senior representatives from international organisations and standard setters and national authorities in the FSB and its Regional Consultative Groups.

3 The previous progress reports, for August 2016, December 2016, July 2017 and March 2018, are available on the FSB website.

The actions taken since the previous progress report in March 2018 include:

Data collection and analysis

- The FSB published on 16 November 2018 an update of its correspondent banking data report, using data provided by SWIFT as of end-2017, including some methodological improvements.[4] The decline in the number of active correspondents, as measured by the flow of messages, continued in 2017, with a year-on-year reduction of 4.1% at the global level, affecting 21 out of 22 regions, and accelerating in 16 of them. The pace of decline increased for the three major international currencies. At the global level, the decline in the number of active correspondents has not resulted in a lower number of payment messages (volume) or a lower underlying value of the messages processed through SWIFT, but in a reduction in direct flows of payment messages between some countries, and increased concentration of correspondent activity in the most active corridors.
- The World Bank has published country case studies that provide more qualitative detail regarding the impact of the decline of correspondent banking and complement the quantitative evidence presented in the correspondent banking data report.

Clarifying regulatory expectations

- The FATF and BCBS conducted surveys of their membership to assess the transmission and traction of the FATF guidance on correspondent banking and the revised BCBS guidance on correspondent banking. FATF discussed the outcome of that work at its Plenary meeting in June 2018. A large proportion of the private sector entities surveyed by the FATF stated they had received communication from their regulators/supervisors at least on one of the elements of the FATF/BCBS Guidance, and over 20 FATF members have taken concrete actions to communicate the new guidelines, including changing legislation in one case, and updating guidance in six cases, although some correspondent banks did not receive any communications from supervisors and were not aware of any of the Guidance documents and some large providers of correspondent banking services did not observe changes in the supervisory approach following the communication of the Guidance. While the survey shows overall a high level of dissemination of the Guidance, some national authorities may need to do more.
- The reduction in correspondent banking relationship may affect trade finance transactions that rely on correspondent banking arrangements to be processed, which may have an impact on less-developed countries that are reliant on vulnerable correspondent banking relationships for access to basic supplies and to support development. The FSB started exploring, with inputs from the World Trade Organization (WTO) and the International Finance Corporation (IFC), whether and how some of the solutions already developed can be further elaborated to better capture the trade finance components of correspondent banking. To that end, the Asian Development Bank (ADB) is collecting from industry examples of cases specific to trade finance, where additional clarifications of regulatory expectations in correspondent banking could be needed.

[4] Available at: https://www.fsb.org/2018/11/fsb-correspondent-banking-data-report-update

Domestic capacity building

- The CBCG convened a workshop on 25 October 2018 on coordination and prioritisation of the capacity development needed to strengthen domestic AML/CFT supervision. The workshop involved private sector participants, who discussed assistance being developed by the Wolfsberg Group – an industry body consisting of 13 global correspondent banks[5] – concerning its Correspondent Banking Due Diligence Questionnaire and the costs associated with due diligence. The CBCG has committed to explore how solutions developed to address the reduction in correspondent banking relationships might also be used in the context of trade finance, and WS3 has discussed with the WTO, IFC and multilateral development banks (MDBs) TA that these organisations provide to private sector banks on trade finance.
- To broaden the inputs to the CBCG's work on capacity building, the UK's HM Treasury, and the United Nations Office of Drugs and Crime recently accepted invitations to become members of the CBCG workstream responsible for coordinating capacity building.
- The CBCG has discussed how to make the inventory of TA more forward-looking by including planned TA. For confidentiality reasons, many authorities find it difficult to share detailed information about proposed or planned TA. That said, the CBCG has discussed whether it is possible for members to share amongst themselves assessments of TA that they have delivered.

Strengthening tools for due diligence by correspondent banks

- The members of the Wolfsberg Group have expressed their intention to implement the use of the Correspondent Banking Due Diligence Questionnaire with new and existing respondents by end-2019. Extensive use of the questionnaire is essential to achieve the intended reduction of duplication in the collection of information and to save costs.
- Further progress have been made concerning the Legal Entity Identifier (LEI), with total issued LEIs exceeding 1.3 million, the collection in less than 18 months of information on 140,000 relationships between a subsidiary and their parent entities, and a decrease in LEI prices, which will facilitate the effective use of the LEI to reduce costs and increase efficiency for the processing of wire transfers.

Access of remittance providers to banking services

- Remittance service providers remain one of the categories of bank customers that have been most affected by the reduced provision of correspondent banking services. In March 2018, the FSB published a report taking stock of existing initiatives to address access to banking services by remittance providers and including 19 recommendations aimed at national authorities, banks and remittance service providers.[6]

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[5] The members of the Wolfsberg Group are Banco Santander, Bank of America, Barclays, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JP Morgan Chase, MUFG, Société Générale, Standard Chartered and UBS.

[6] *Stocktake of remittance service providers' access to banking services* available at http://www.fsb.org/wp-content/uploads/P160318-3.pdf

Next steps

To be effective, the solutions designed by international standard setting bodies and industry organisations need to be implemented in practice by national authorities and banks. The following steps will be taken:

- The CBCG will discuss with SWIFT and the Committee on Payments and Market Infrastructures (CPMI) the assumption by CPMI of the publication of data updates on correspondent banking. CBCG and CPMI will improve the timeliness of the data reports and consider with SWIFT whether there are enhancements that could be made to the reports concerning the indicators of access to correspondent banking services. This report describes changes in correspondent banking relationships in 2017, at a time when most of the measures had not yet taken effect, and 2018 data should be analysed as soon as available. CBCG and CPMI will also discuss with SWIFT whether further updates of the data should take place beyond end-2018 data.
- The FATF and BCBS guidance should be followed up by statements from national regulators, in cases where this has not already occurred, to clarify expectations at the national level, so that they are appropriately reflected in supervisory practices and banks' risk management practices. FATF and BCBS will continue monitoring progress in this regard, in particular through FATF ongoing dialogue with industry, and report in 2019.
- The CBCG will monitor the outcome of the ADB initiative for identifying any remaining issues concerning correspondent banking regulatory expectations related to trade finance, and support as necessary, in cooperation with WTO and IFC, the organisation of a workshop of relevant stakeholders on this topic in the first half of 2019.
- The CBCG will continue to help coordinate TA provision by international organisations, national authorities and the private sector, including through the sharing of information on the countries most affected by a loss of correspondent banking relationships (CBRs).
- Technical solutions such as Know Your Customer (KYC) utilities have the potential to assist in conducting due diligence and reducing compliance costs. The FSB continues to encourage banks to use the Wolfsberg Correspondent Banking Due Diligence Questionnaire to achieve greater efficiencies and improved industry standardisation in KYC utilities.
- The CBCG will explore whether further encouragement could facilitate the effective implementation of the option to use the LEI to identify originator and beneficiaries of wire transfers. This would support trust between banks involved in the same payment chain, as well as reduce the costs and increase the reliability of sanction screening. The objective would be implementation at the latest by 2021, when payment messages are expected to move to the new ISO 20022 standard. CPMI will also monitor the implementation of ISO 20022 and the use of the LEI option.
- The FSB, FATF, Global Partnership for Financial Inclusion (GPFI), International Monetary Fund (IMF) and World Bank are monitoring the take-up of the recommendations on remittance service providers' access to banking services and will report to the G20 in June 2019 on actions taken.

With the international components of the correspondent banking action plan largely in place, the steps listed above illustrate that the focus of CBCG is now turning to monitoring of implementation and of developments. This monitoring will take place through its membership, especially BCBS, CPMI, FATF, GPFI, IMF and World Bank, and the continuation of the CBCG workstream on domestic capacity building. Access to correspondent banking relationships remains a critical issue in some regions and jurisdictions. Should the situation deteriorate further, the FSB, the relevant standard setting bodies and other stakeholders including international organisations and the private sector would consider whether further actions should be taken to address the issue.

1. Data collection and analysis to further examine the dimensions and implications of the issue

A. Update to the Correspondent Banking Data Report published by the FSB

The FSB published on 16 November a Correspondent Banking Data Update,[7] which follows up on the FSB Correspondent Banking Data Report of July 2017 and the Update of March 2018[8]. The latest Update includes additional data from July – December 2017 derived from information provided by SWIFT to the FSB, through the intermediation of the National Bank of Belgium.

Compared to the March 2018 update, the November data report includes methodological improvements and detailed individual country and regional data. The methodological improvements reduce some multiple counting that occurred under the previous methodology, which resulted in understating the extent of the decline in the number of correspondents, as the multiple counting under the previous methodology gave more weight to the most active corridors and obscured the decline in smaller and less active corridors. Other improvements in methodology also tend to result in a larger measured decline. However, the general trends are the same when measured with the new methodology, which primarily corrects their magnitude.

Scale of the withdrawal from correspondent banking

The updated data provided by SWIFT shows that the decline in the number of active correspondents, as measured by the flow of messages, continued in 2017, with a year-on-year reduction of 4.1%. This is also the case of the number of active corridors (defined as country pairs that processed at least one transaction) which declined by 2.4% in 2017. From January 2011 to end-2017, the number of active correspondents declined by 15.5% and active corridors by 7.3%. Over that same period, the decline in the number of active correspondents is more acute for USD (23%) and EUR (20.8%). The annual rate of the decline increased in 2017 for the three major international currencies, reaching 7.6% for USD, 6.6% for EUR and 6.1% for GBP (against respectively 5.2%, 3.8% and 1.5% in 2016).

In 2017, all continents or sub-continents have seen a decline in the number of active correspondents, as measured by the flow of messages sent through SWIFT. The rates of decline range between 5.2% and 6.7%, except Northern America (2.9%).[9] The yearly rate of decline increased compared to 2016 for all regions except Africa (likely due to base effects, as Africa had the largest rate of decline in 2016). Based on total numbers, the Americas (excluding Northern America) and Oceania experienced the largest decreases in the number of active correspondents in 2017.

Over the entire period for which the FSB has received SWIFT data, from January 2011 to December 2017, the percentage decline in the number of active correspondents was smallest in

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[7] Available at: https://www.fsb.org/2018/11/fsb-correspondent-banking-data-report-update

[8] Available at http://www.fsb.org/2018/03/fsb-publishes-updated-data-on-correspondent-banking-relationships/ and http://www.fsb.org/2017/07/fsb-correspondent-banking-data-report/.

[9] Continents and regions used is this report are those defined by the United Nations Statistical Division (https://unstats.un.org/unsd/methodology/m49/). For instance, Northern America includes Bermuda, Canada, Greenland, Saint Pierre and Miquelon and the United States.

Northern America (9.3%) and largest in the rest of the Americas (27.6%), with all other continents or sub-continents seeing declines between 15.5% and 19%.

At a more granular geographic level, all 22 regions[10] except Micronesia[11] saw a reduction in the average number of active correspondents[12] both in 2016 and 2017 (as measured by the number of banks abroad receiving SWIFT payment messages from a country). The decline accelerated in a majority of regions (16) in 2017. The regions with the largest cumulative declines since 2011 are Melanesia, Polynesia, the Caribbean, South America and Northern Africa, with declines between 28% and 40.6%. These five regions, as well as European regions, are also the most affected from the perspective of the number of country-relationships that local banks have, with cumulative declines of more than 15%.

Over the entire period, all 22 regions have seen a decline of the number of foreign correspondents computed at country level across all three major currencies (USD, EUR, and GBP), except Eastern Europe for GBP and Micronesia for EUR and GBP. In 2016 and 2017, year-on-year declines occurred in all regions for USD and all regions but Micronesia for EUR, while effects are more differentiated by region for GBP transactions. The decline accelerated in 2017 compared to 2016 in most regions, except several regions in Africa (most notably Northern Africa for each of the three currencies), South America for EUR, the Caribbean and Australia and New Zealand for USD, Polynesia for USD and GBP. Since 2011, the decline is significantly larger for EUR than USD in the Caribbean (-38.3% against -33.7% for USD) and Eastern Africa (-30.7% against -22.9%). Conversely, among the other most affected regions, Northern Africa and Polynesia see higher declines for USD than EUR (-39.9% against -32.5% and -45.9% against -35.3% respectively), while South America experienced similar declines for both currencies (around -33% and -27%).

Finally, and similarly to the analysis presented in the July 2017 report, small economies with a GDP of less than 10 billion USD have seen a stronger decline in the ratio of the number of foreign counterparties per local banks (-23.4%), compared economies with a GDP between 10 and 1000 billion (around -18%) and economies with GDP above 1 trillion USD (-8.4%). However, this has not affected, on average, the volume and value of messages they received, which have increased more for small economies compared to the larger ones.

Effects of the reduction in the number of correspondent banking relationships

First, in line with previous analyses in the CPMI report of July 2016 and *FSB Correspondent Banking Data Report* of July 2017, data continues to support the finding that, at the global level, the decline in the number of active correspondents (as defined in this report) has not resulted in a lower number of payment messages (volume) or a lower underlying value of the messages processed through SWIFT. The higher volume of messages could in part reflect a lengthening of payment chains, as discussed in the July 2017 report.

Second, and as a result of the reduction in the number of active corridors and lengthening of payment chains, the average number of active counterparty countries, defined as countries

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[10] As defined by the United Nations Statistics Division.

[11] Micronesia saw no change in 2017. This is the region with by far the smallest number of active correspondents (less than 20).

[12] In terms of the number of banks established in the region that send messages abroad (including to countries in their regions), totalled across all corridors.

receiving direct payment messages from a given country, declined in all regions but Middle Africa, although the rates varied significantly. The most pronounced decreases between 2011 and 2017, over 24%, were for Melanesia, Polynesia and the Caribbean.

Third, several indicators of concentration of correspondent banking activity have increased. The active correspondents handle a larger number of payment messages, especially in Northern America, and the Gini coefficient on the number of active correspondents per corridor has increased since April 2015, reflecting higher concentration of correspondent banking activity in a more limited number of corridors.

As noted in other reports, as SWIFT is the most commonly used messaging standard for cross-border payments, SWIFT captures a meaningful amount of correspondent banking activity and the data likely delivers an accurate picture of the trends in payment traffic between jurisdictions. However, the data does not represent a comprehensive account of correspondent banking cross-border financial flows. Because financial institutions have multiple means of exchanging information about their financial transactions, SWIFT messages flows do not represent complete market or industry statistics.

B. Ongoing monitoring of trends in correspondent banking

An essential element of the FSB four-point action plan on correspondent banking is to develop a global framework for more systematic, regular data collection at the country level and a more effective capacity to monitor trends at the global level, beyond ad hoc surveys. This will assist in better understanding the causes and effects of the decline, to ensure that actions to address the decline are well targeted, and to monitor their effects. In developing such a framework, the CBCG has sought to limit the duplication of efforts and to rely as much as possible on existing data.

In addition to the data already presented in CPMI and FSB reports, SWIFT has agreed to provide further updates until the provision by mid-February 2019 of end-2018 data. The CBCG will discuss with SWIFT and CPMI the assumption by CPMI of the publication (in consultation with the CBCG) of the update reports. The CBCG will continue to use these updates to monitor developments in correspondent banking. This reorganisation will be the opportunity to streamline the analysis process and increase the timeliness of the data reports.

CBCG and CPMI will discuss with SWIFT whether to complement the monitoring with additional indicators, especially those that might identify instances where there has been an increase in the proportion of banks that do not receive payment messages in one of the most internationally used currency. CBCG and CPMI will discuss with SWIFT whether further updates of the data should take place beyond end-2018 data.

Regular updates of data for values and volumes of correspondent banking activity and numbers of active correspondents at a country level will be important to be able to monitor changes over time. However, confidentiality constraints restrict the data analysis that can be done at the global level, and detailed concentration analysis may be best conducted at the national level,

using for instance the IMF methodology published in their Working Paper "Understanding Correspondent Banking Trends: A Monitoring Framework".[13]

C. Other analyses of correspondent banking

The World Bank conducted country studies in emerging markets as a complement to the FSB survey in 2017. The objective was to provide more insight into the further effects on financial inclusion and other activities relevant to emerging markets resulting from financial institutions' termination of business relationships with various types of customers, such as humanitarian organisations and remittance companies. The World Bank discussed preliminary findings with affected jurisdictions at a forum in the margins of the IMF-World Bank Annual Meetings in October 2017, together with possible policy solutions, and published a policy paper resulting from these country studies in May 2018[14]. Overall, in the eight countries covered in this study, the macroeconomic impact of "de-risking" appears limited. In a few countries, the net loss of CBRs has been marginal, and the impact has remained contained. Banks have been able to cope with the situation by dealing with fewer correspondent banks or establishing new ones, but this process can be cumbersome. In addition, in many cases the terms and conditions of newly established CBRs were significantly less favourable than under previous relationships.

The IMF notes, in its latest Global Financial Stability Report, that "The implications may be macro-critical for some jurisdictions. Concentration through fewer CBRs allows for economies of scale, which is relevant for cost-effective implementation of AML/CFT requirements in particular, but it also accentuates financial fragilities in some countries. These fragilities could undermine affected countries' long-term growth and financial inclusion by increasing the costs of financial services and negatively affecting bank ratings. These fragilities could also tighten domestic liquidity conditions and increase the cost of finance."[15]

2. Clarifying regulatory expectations

The action plan included the clarification of regulatory expectations, including more guidance from the FATF in the area of correspondent banking, in cooperation with the BCBS AML/CFT Expert Group (AMLEG). FATF and BCBS are monitoring how their guidance is implemented at the jurisdiction level.

The FATF conducted, in cooperation with the BCBS, a survey of supervisory authorities in December 2017. The scope of the survey included three guidance documents: Guidance on Correspondent Banking Services (FATF, October 2016)[16]; Guidance for a Risk-Based

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[13] http://www.imf.org/en/Publications/WP/Issues/2017/10/04/Understanding-Correspondent-Banking-Trends-A-Monitoring-Framework-45318 This framework can be used by central banks and supervisory authorities, which can access more granular data concerning the banks they regulate to monitor the developments of correspondent banking relationships in their jurisdiction.

[14] The Decline in Access to Correspondent Banking Services in Emerging Markets: Trends, Impacts, and Solutions http://documents.worldbank.org/curated/en/552411525105603327/pdf/125422-replacement.pdf .

[15] https://www.imf.org/en/Publications/GFSR/Issues/2018/09/25/Global-Financial-Stability-Report-October-2018

[16] http://www.fatf-gafi.org/media/fatf/documents/reports/Guidance-Correspondent-Banking-Services.pdf.

Approach for Money or Value Transfer Services (FATF, February 2016)[17] and the Annex on Correspondent Banking to the Guidelines on Sound management of risks related to money laundering and financing of terrorism (BCBS, June 2017) [18]. The main findings of the survey were that most regulators and supervisors did take specific actions to communicate at least one of the Guidance documents, and did that within a relatively short timeframe. Of the 25 which responded:

- One jurisdiction incorporated elements of the guidance into legislation;
- Six jurisdictions, updated the national guidance issued or endorsed by authorities;
- 22 jurisdictions communicated the substance of the guidance through circulars, discussions, or by sending the FATF guidance to regulated entities.

A second stage of the survey was aimed at the private sector and took place in March-April 2018, with the participation of 324 private sector entities, with however overrepresentation of financial institutions from Mexico. Approximately 80% of all respondents stated they had received communication from their regulators/supervisors at least on one of the elements of the FATF/BCBS Guidance. Levels of implementation of the Guidance appear to be very high: only three of the respondents (around 1%) said they have not yet made adjustments to their internal compliance policies following the communications from the regulators/supervisors. A vast majority (96%) have made changes to their policies and have also started to implement these. Most institutions (82%) had observed changes in the supervisory approach following the communication of the Guidance, although some respondents do not see any change, including providers of cross-border banking services to money or value transfer service providers outside their home jurisdictions, and 8 correspondent banks which have cross-border relationships with a significant number of respondent banks. Overall, transmission and traction of FATF guidance and the FATF's guidance is generally being disseminated by national supervisors, and is being understood by financial institutions. However, some authorities may need to do more, as some respondents to the survey did not receive any communications from supervisors and were not aware of any of the Guidance documents, and some large providers of correspondent banking services did not observe changes in the supervisory approach following the communication of the guidance. FATF and BCBS will continue monitoring progress in this regard, in particular through FATF ongoing dialogue with industry, and report in 2019.

The FSB action plan on correspondent banking was presented and discussed with industry representatives at a meeting of the World Trade Organisation Expert Group on Trade Finance in March 2018. The ADB started collecting from industry participants perceived challenges in the interpretation or implementation of regulations specifically related to correspondent banking and trade financing, with a focus on material and recurring issues. [19] As a next step, ADB will host a workshop at end-March 2019 to support public and private sector engagement to address issues identified in the ADB diagnostic tool. Prior to the workshop, ADB will develop metrics and illustrative cases to underpin action plans. CBCG will monitor the outcome

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[17] http://www.fatf-gafi.org/media/fatf/documents/reports/Guidance-RBA-money-value-transfer-services.pdf

[18] http://www.bis.org/bcbs/publ/d405.htm

[19] The Trade Finance Scorecard: Regulation and Market Feedback, September 2018 https://www.adb.org/sites/default/files/publication/447341/trade-finance-scorecard.pdf

of the ADB initiative and support as necessary, in cooperation with WTO and IFC, the organisation of the workshop.

3. Domestic capacity-building in jurisdictions that are home to affected respondent banks

Jurisdictions exited by correspondent banks are often those with actual or perceived weaknesses in their supervisory and regulatory frameworks, including frameworks for compliance with AML/CFT standards. Concerns about weaknesses in respondent banks' risk management practices also can play a central role. Correspondent banks have pointed out that the business costs and risks associated with meeting AML/CFT or sanctions requirements with respect to particular jurisdictions or banks may be important drivers in their decisions to terminate CBRs.

The third element in the FSB action plan supports coordination of domestic capacity building to improve and build trust in the supervisory and compliance frameworks of affected jurisdictions. Capacity building in this context extends not only to public sector initiatives, but also to the private sector. In the official sector, capacity building includes the strengthening of legal and institutional frameworks; strengthening of authorities' institutional capacity to implement their frameworks; drafting of legislation and subordinate regulations, and supervisory guidelines/manuals; hands-on training of supervisory staff on how to monitor AML/CFT standards and for general supervision of financial institutions; training of law enforcement on how to investigate money laundering or large-scale corruption and assisting countries in conducting self-assessments of their AML/CFT risk management framework and tools. Stronger supervision of financial institutions in the impacted jurisdictions where respondent banks are located may encourage correspondent banks to retain or re-open correspondent banking relationships and reduce the negative impacts of any changes in access to such relationships. Moreover, for capacity building measures to succeed, the political will to both implement recommended measures and take ownership publicly of weaknesses and improvements made is essential.

It is important that capacity building within the official sector be complemented by and coordinated with private sector initiatives through which correspondent banks support improvements at respondent banks in affected jurisdictions, including better explaining how respondents can proactively reduce the risk of account closures and service restrictions by improving their own practices.

A. Assessment of weaknesses and technical assistance by the official sector

The CBCG held a workshop on 25 October 2018 that brought together TA sponsors/providers to share lessons learned from TA delivery and explore ways to enhance coordination across providers so that assistance can be provided in a more effective and efficient manner. As part of this, participants considered different types of TA and what types work best in which circumstances and the need to take a more holistic approach when determining the TA response to a particular jurisdiction. Members discussed the complementary approaches of improving regulatory and supervisory frameworks (e.g. TA projects by IMF, United Nation Office on Drugs and Crime, US Treasury, World Bank), strengthening capacity and compliance of financial institutions (e.g. projects by the European Bank for Reconstruction and Development – EBRD and IFC), providing more targeted capacity development activities on trade finance

and specific sectors impacted by CBR pressures (e.g. EBRD, IFC, IMF), and to facilitate dialogue among stakeholders (e.g. FATF, FSB, IMF). The private sector attended part of the workshop, and discussed TA that they are providing, as well as potential synergies between public and private sector initiatives. Participants discussed the need for banks to better understand and manage risk, communication of steps taken to address weaknesses in either a bank's AML/CFT framework or that of national authorities, and the possible need for additional implementation guidance.

The CBCG has expanded membership of its Workstream 3 on domestic capacity-building workstream to include the United Nations Office of Drugs and Crime and HM Treasury. It is also considering expanding the number of FATF-Style Regional Bodies represented in the workstream. The additional members should enhance the FSB's dialogue with public sector TA providers, strengthen coordination activities and support a more robust discussion of capacity building priorities, overlaps and potential gaps in the provision of TA.

The CBCG has engaged with the WTO, IFC and several MDBs on the issue of trade finance-related TA. The reduction in correspondent banking relationships may affect trade finance transactions that rely on correspondent banking arrangements to be processed, and may thereby impact some countries, especially those that depend on trade for their development or the access to basic supplies.

Working with the WTO, IFC and MDBs, a table of trade finance TA projects has been prepared, most of which are delivered by MDBs and are aimed at the private sector. At the same time, a listing of priority countries was prepared to identify areas that are in greatest need of TA. These documents were circulated to CBCG members to enable them to support MDBs in their delivery of TA. For instance, an expert from the BCBS AMLEG is presenting the latest BCBS guidance at a regional seminar on trade finance organised by the Afreximbank in Morocco in November 2018. Similarly, CBCG members may invite MDBs to participate in public sector capacity building efforts.

The IFC published in September 2018 a Guide for respondent banks in the area of trade finance, which supports capacity building by providing for instance practical information on regulatory expectations and on the technical solutions included in the FSB action plan, such as industry questionnaires, the LEI and KYC utilities.[20]

B. Encouraging private sector training and assistance initiatives

In the March 2018 progress report[21], the CBCG agreed to explore further the role of the private sector and discuss avenues to engage the correspondent banking community on ongoing TA projects. The Wolfsberg Group published its Correspondent Banking Due Diligence Questionnaire (DDQ) in February 2018[22], along with Publication Guidance, Completion Guidance, Frequently Asked Questions and a Glossary, and met in May 2018 to discuss what capacity building efforts it should undertake to assist with implementation of the DDQ. At the

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[20] International Financial Corporation, Navigating Essential Anti-Money Laundering and Combating the Financing of Terrorism Requirements in Trade Finance: A Guide for Respondent Banks, September 2018 https://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/financial+institutions/resources/20180918-a+guide+for+respondent+banks

[21] http://www.fsb.org/wp-content/uploads/P160318-2.pdf.

[22] https://www.wolfsberg-principles.com/wolfsbergcb

October 2018 CBCG workshop on TA, representatives from the private sector described assistance being developed by the Wolfsberg Group concerning its DDQ and the costs associated with due diligence.

In order to support the ongoing maintenance of, and enhancements to, the DDQ, the Group has set up a dedicated Steering Committee, which has been working on even more detailed guidance. This additional guidance will set out the purpose of each question, why the question is important and why the answer matters from a financial crime risk management perspective. The guidance will take the form of both documentation and recorded webinars, which will be made available for use not only by the industry, but also by those who provide TA either to supervisors and banks. This is being done not only to support a consistent interpretation of the requirements of the questionnaire as intended by the Group itself, but also to support TA across as many types of providers, whether in the public or private sector, as possible.

Individually, some correspondent banks are also organising their own capacity building for respondent banks. Standard Chartered, for example, has developed a Correspondent Banking Academy initiative, in which it shares its tools and experience to help respondent banks build robust controls for managing financial crime risk. Begun in 2016, the Academy has been attended by more than 3,600 senior bankers from over 1,120 banks in 71 countries.

The CBCG assists in coordinating support for capacity building that disseminates AML/CFT regulatory guidance to the private sector. Although the mandate of most official sector authorities does not allow them to provide TA to the private sector, in some circumstances exceptions can be made.

4. Strengthening tools for due diligence by correspondent banks

The mandate of FSB CBCG workstream 4 includes supporting the implementation of the recommendations in the CPMI report on correspondent banking of July 2016. The report included a package of measures that could help improve the efficiency of due diligence procedures, reduce compliance costs and help address perceived uncertainty, without altering the applicable rules and the basic channels for correspondent banking between correspondent and respondent banks.[23]

The FSB and CPMI are jointly supporting and monitoring the implementation of the recommendations in the CPMI report, which require ongoing cooperation by a number of public sector and private sector bodies. To that end, BCBS AMLEG, CPMI Working Group on Correspondent Banking and Workstream 4 of the FSB CBCG organised a workshop in Frankfurt in June 2018 to discuss the use of KYC utilities for correspondent banking due diligence, the quality of payment messages and the use of the LEI in correspondent banking. Key industry stakeholders participated in the workshop, including the Wolfsberg Group, Payments Market Practice Group (PMPG), the International Standardization Organisation (ISO), the Global LEI Foundation (GLEIF) and several KYC utilities. Representatives from the WTO, the IFC and several MDBs as well as the Bankers Association for Finance and Trade

[23] http://www.bis.org/cpmi/publ/d147.htm

also participated in the meeting to cover aspects of correspondent banking specific to trade finance.

In addition to the CPMI recommendations, other technical solutions addressing or offsetting the reduced availability of correspondent banking are also being proposed, including how technological innovations, such as big data and machine learning, might be usefully applied in generating and analysing information and facilitating due diligence processes.

A. Progress in the implementation of CPMI recommendations and next steps

1) Recommendation on the use of "know your customer" (KYC) utilities:

The June Workshop took stock of the implementation of the new Wolfsberg Group DDQ. The 13 members of the Wolfsberg Group intend to implement the use of the DDQ with new and existing respondents by the end of 2019. This would replace the previously used bank-specific questionnaires. While filling in the new questionnaire will initially increase the burden for respondents, filling in one questionnaire for all correspondents will bring later efficiencies.

Another benefit of a broad use of the questionnaire is that it clearly sets a consistent expectation from correspondents to respondents. Workstream 3 of the CBCG (on domestic capacity building) is discussing how some TA providers, in particular MDBs, can also assist in the outreach to respondents.

All KYC utilities present at the workshop reported that they were using the DDQ, which addresses the intended objective of the CPMI recommendation, that the Wolfsberg questionnaire support standardisation across KYC utilities.

Challenges were also discussed. There are for instance questions that cannot be standardised, which are specific to a given country or a bank. It was also recognised that other materials beyond the DDQ will be needed, such as supporting evidence, or further documentation reflecting different risk appetite, footprint, or the need to follow up on transaction monitoring. This is consistent with the concept of the DDQ as a first step in the risk assessment process. So far, there have been no requests to add or amend the DDQ, but the Wolfsberg Group set up a dedicated Steering Committee in order to support the ongoing maintenance of, and enhancements to, the DDQ.

Participants discussed whether the technical format of the DDQ should be standardised, beyond the current use of the Acrobat PDF and Microsoft Excel templates.

On the one hand, the current templates have some limitations, such as insufficient space for detailed explanations due to field limitations. On the other hand, it is not clear that a more structured data format, restricted to the DDQ, would bring benefits to justify development costs. This is especially true for smaller banks, who would be more familiar with widely used formats currently available. Any additional data will be specific to the circumstances and cannot be easily standardised. On balance, it was therefore agreed that further standardisation of the DDQ format did not yield sufficient benefits to be taken further at this stage.

At the same time, it was noted that standardisation may make more sense for some KYC data elements beyond the DDQ. Notably, only one Wolfsberg Group member currently uses the LEI to identify which entity has filled in the DDQ. The LEI system could also help collect standardised information that is requested in the DDQ but is not specific to the DDQ, such as

names, addresses, group structures, and more general entity identification. KYC utilities could use the LEI to facilitate the completion of the DDQ.

CPMI is conducting a survey of KYC utilities to assess the extent of adoption of the DDQ by banks, to monitor progress in coverage, as a large use of the questionnaire is essential to achieve the intended reduction of duplications in the collection of information and save costs.

2) Recommendation on the use of the Legal Entity Identifier (LEI) in correspondent banking:

Implementation measures regarding the LEI include:

- General promotion of LEIs: Adoption of the LEI continues to increase, with slightly more than 1.3 million LEIs having been issued as of mid-November 2018. The FSB launched a thematic peer review on implementation of the LEI. The objective of the review is to evaluate the progress made by FSB members – both national authorities and international bodies – in response to the G20 Leaders' 2012 call for "global adoption of the LEI to support authorities and market participants in identifying and managing financial risks".[24] The peer review will take stock of the approaches and strategies used by FSB members to implement the LEI, including its adoption for regulatory requirements; assess whether current levels and rates of LEI adoption are sufficient to support the ongoing and anticipated needs; and identify the challenges in further advancing the implementation and use of the LEI, and make recommendations (as appropriate) to address common challenges.
- Mapping LEIs with other identifiers: The GLEIF and SWIFT are regularly publishing updates of the BIC-to-LEI[25] mapping, which covers some 18,000 entities.[26]
- Assessing potential uses of the LEI as a means of accessing reliable information to support customer due diligence in correspondent banking. The BCBS has already encouraged the use of the LEI in some circumstances in its *General guide to account opening*[27]. In addition, in the revised guidance on correspondent banking, the BCBS notes that information on the group structure available in the LEI system may be a way to access information on the jurisdictions in which subsidiaries and branches of the respondent bank corporate group are located, to support their risk assessment, provided respondents make sure the information is comprehensive and up-to-date. As of end-September 2018, over 140,000 parent relationships were available in the LEI system.[28] As noted in previous reports, this may facilitate the access of this information in a standardised format and banks are encouraged to use this channel to exchange with each

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24 http://www.fsb.org/2018/08/fsb-launches-thematic-peer-review-on-implementation-of-the-legal-entity-identifier-and-invites-feedback-from-stakeholders/.

25 Business Identifier Code. The BIC is used to identify banks in correspondent banking messages, but for historical and other reasons, a bank may have several BICs. The LEI is a unique identifier for legal entities.

26 https://www.gleif.org/en/lei-data/lei-mapping/download-bic-to-lei-relationship-files#.

27 http://www.bis.org/bcbs/publ/d353.htm, Annex 4.

28 This covers not only banks but any legal entity. Relationship data is available at https://www.gleif.org/en/lei-data/gleif-concatenated-file/download-the-concatenated-file#.

other information on their group structures, by registering their relevant entities and keeping the information up-to-date.

3) ***Recommendation on information-sharing initiatives:***

The CPMI noted that privacy laws may prevent the transmission of additional information by the respondent to its correspondent concerning transactions, their originators and beneficiaries. In addition, the private sector identified this as a key issue that may lead banks to avoid high risk customers altogether, as banks may be prevented from sharing information that would clear suspicious transactions, or that would show that suspicious transactions are appropriately handled and reported. No new activity was reported to CBCG following the publication by FATF in November 2017 of their Guidance on Private Sector Information Sharing.[29]

4) ***Recommendation on payment messages, with a focus on the correct use of available methods for payment.***

As described in previous reports, recommendations have been issued by the BCBS (on supervisors' expectations regarding the quality of payment message content) as well as by the PMPG in June 2017 (on the correct use of the MT 202 COV payment messages[30]) and by the Wolfsberg Group in October 2017 (revised version of their Payment transparency standards[31]). In the latter document, the Wolfsberg Group had observed that full adoption of ISO 20022 standards for payment messages would support addressing the lack of sufficient capacity in certain payment message fields to transmit all the information. At the Frankfurt workshop, SWIFT reported that after a large scale market consultation they had conducted, the SWIFT Board recommends that a migration of correspondent banking payment messages to ISO 20022 should start in November 2021. Due to several FMIs having already changed their messaging formats to ISO 20022, adoption is already taking place.

5) ***Recommendation on the use of the LEI on an optional basis as additional information in payment messages:***

In November 2017, as recommended by CPMI, the PMPG published an option for identifying with an LEI the originator and beneficiary of wire transfers.[32] At the June Workshop in Frankfurt, participants observed that the Wolfsberg Group, PMPG, LEI ROC and GLEIF have illustrated the benefits of the use of the LEI in payment messages to facilitate the unambiguous identification of the originator and beneficiary of payments, and a more reliable screening of payment messages. GLEIF noted that some 30% of names in sanctions lists are legal entities and that 'false positives' can represent 10% of payments.

Participants saw safety and efficiency benefits for all parties in a transaction chain in using the LEI, including improved compliance checks and additional automation. While the increase in LEI numbers was positive, SWIFT noted that so far structured data was only used in some 5%

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29 http://www.fatf-gafi.org/publications/fatfgeneral/documents/guidance-information-sharing.html

30 LEI in the Payments Market https://www.swift.com/about-us/community/swift-advisory-groups/payments-market-practice-group/document-centre/document-centre?category=6621

31 http://www.wolfsberg-principles.com/pdf/standards/Wolfsberg-Payment-Transparency-Standards-October-2017.pdf

32 https://www.swift.com/about-us/community/swift-advisory-groups/payments-market-practice-group/document-centre/document-centre.

of cases for originators and beneficiaries (fields 50 and 59), and the LEI was presumably only a fraction of them. While this may be because the publication is very recent, SWIFT noted that banks are reluctant to invest in upgrading the current formats, given the preference for replacing current message formats with ISO 20022.

Concerning ISO 20022, a request to include the LEI as a defined data type in payment messages will be completed in February 2019. Therefore, given the growing momentum for the adoption of the ISO 20022 by 2021, there could be a case for regulators and banks fostering the effective use of the LEI in payment messages by that date. Participants in the workshop observed that a further decrease in LEI prices for legal entities would support such an adoption.

Regulation can also assist, and for instance the Bank of England recently initiated a consultation on a requirement to include the LEI in payment messages, starting with payments between financial institutions.[33] The CBCG will explore whether further encouragement could facilitate the effective implementation of the option to use the LEI to identify originator and beneficiaries of wire transfers. The objective would be implementation at the latest by 2021, when payment messages are expected to move to the new ISO 20022 standard. CPMI will also monitor the implementation of ISO 20022 and the use of the LEI option.

B. Potential public sector involvement in other technical solutions

No further developments were reported on the scope for public sector actions, at the national, regional or international level, to support technical solutions addressing or offsetting the reduced availability of correspondent banking since the publication by the IMF of their April 2017 report "*Recent Trends in Correspondent Banking Relationships – Further Considerations*".

C. Potential applications of financial technologies

The FATF continued its discussions with industry of how new technologies such as artificial intelligence can contribute to AML/CFT compliance, including through a joint FATF/Eurasia Group FinTech and RegTech forum held in September 2018 in Hangzhou, China.

5. Monitoring of recommendations to improve remittance service providers' access to banking services

As stated in the G20 Hamburg Action Plan of July 2017, the FSB is coordinating work, together with the FATF and the GPFI, to address remittance service providers' access to banking services that are not already being dealt with through existing initiatives. In March 2018, the FSB published a report that set out 19 recommendations in four main areas that, if implemented,

[33] Bank of England, June 2018, ISO 20022 consultation paper: a global standard to modernise UK payments. The Bank of England note in this document that it "will engage in efforts to increase the uptake of LEIs, and intends to make them mandatory for all payments that involve parties that are eligible for an LEI" and that "This could improve financial crime prevention, enhance productivity and enable more data-driven decision making" https://www.bankofengland.co.uk/-/media/boe/files/payments/iso-20022-consultation-paper.pdf.

may contribute to greater access of banking services by remittance service providers.[34] The four categories of recommendations are as follows:

- Promoting dialogue and communication between the banking and remittance sectors;
- International standards and oversight of the remittance sector;
- The use of innovation in the remittance sector and its possible role in enabling greater access of remittance service providers to banking services; and
- Technical assistance on remittance-related topics.

At the global level, remittance flows for 2017 stood at USD613 billion, an increase of 7.0% over 2016. Flows to low and middle income countries increased by an even larger amount, 8.5% to USD466 billion. For the first time since 2010, all regions of the world saw an increase, with flows to Europe and Central Asia increasing by over 20%. After declines in 2015 and 2016, some estimates suggest that the increase seen in 2017 could continue for the next several years, albeit at a slightly more moderate rate.[35] Nevertheless, access of remittance service providers to banking services remains a source of concern, which is particularly acute in those developing countries where remittance flows are a key source of funds for households.

CBCG is also working to promote dialogue and communication between the banking and remittance sectors. Improved communication can play a role in improving the perception by banks of risk in the remittance sector and thus improve access. The FSB hosted a session at a conference organised by the International Association of Money Transfer Networks in London in October 2018 that considered how to enhance dialogue between the two sectors.

The FSB agreed to monitor the steps and actions taken by national authorities, banks and remittance service providers to implement the recommendations in its March 2018 plan and report back to the G20 in June 2019. More specifically, the FSB will monitor take-up of the first category of recommendations while the FATF, GPFI, and IMF and World Bank will monitor the second, third and fourth groups, respectively.

The methods used to monitor implementation of the recommendations will include surveys, workshops and bilateral or multilateral discussions with relevant stakeholders. The monitoring and resultant report will be of sufficient depth that it will identify and discuss trends, where whether implementation is effective and where implementation is lagging. Country examples to illustrate good practices will also be included, where identified.

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[34] http://www.fsb.org/wp-content/uploads/P160318-3.pdf

[35] https://www.knomad.org/sites/default/files/2018-04/Migration%20and%20Development%20Brief%2029.pdf