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Press release

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BCBS, CPMI, FATF and FSB welcome industry initiative facilitating correspondent banking

The Basel Committee on Banking Supervision (BCBS), the Committee on Payments and Market Infrastructures (CPMI), the Financial Action Task Force (FATF) and the Financial Stability Board (FSB) welcome the Correspondent Banking Due Diligence Questionnaire recently published by the Wolfsberg Group, as one of the industry initiatives that will help to address the decline in the number of correspondent banking relationships by facilitating due diligence processes. The questionnaire aims to standardise the collection of information that correspondent banks ask from other banks when opening and maintaining these relationships, such as their ownership, the products and services they offer and their programmes for Anti-Money Laundering (AML), Countering the Financing of Terrorism (CFT) as well as compliance with sanction regimes and Anti-Bribery and Corruption (ABC) programmes. The questionnaire is also part of a cooperative effort by the public and private sectors to recognise Know-Your-Customer (KYC) utilities as an effective and efficient tool to support due diligence processes.

A decline in the number of correspondent banking relationships has been a source of concern for the international community for some time. In affected jurisdictions, this decline may impact the ability to send and receive international payments, or drive some payment flows underground, with potential adverse consequences on international trade, growth, financial inclusion, as well as the stability and integrity of the financial system.

The **FSB** has coordinated an Action Plan to assess and address the issue, including measures by the BCBS, CPMI and FATF.

A survey coordinated by the FSB of over 300 banks suggested that the fixed costs associated with opening and maintaining a correspondent banking relationship, particularly the application of KYC requirements, is one of the drivers behind the decline in the number of relationships, at least where there is not sufficient volume of business to compensate for these costs. Lack of profitability was assessed by surveyed correspondent banks to explain approximately one fifth of relationship terminations. To improve this situation, the FSB has encouraged technical measures, such as the development of KYC utilities, which would contribute to reduce costs of correspondent banking relationships while maintaining the effective application of KYC requirements.

The **CPMI** identified in its report on Correspondent Banking that, according to data from SWIFT, the 7,000 banks that use the SWIFT network for correspondent banking have more than 1 million individual relationships. Each of these relationships must be opened and maintained, but there is no standardised format for the information required.

The CPMI recommended (among other things) that this inefficiency could be reduced by respondent and correspondent banks using KYC utilities. A necessary condition for this would be for industry to define a standardised data set (including the format) that all utilities should collect and that all banks must be ready to provide.

The **FATF** has taken initiatives to make sure that the application of AML/CFT measures does not contribute to de-risking. In order to clarify regulatory expectations, the FATF published guidance on correspondent banking services, and risk-based approach guidance for money and value transfer services, which emphasise that financial institutions should identify, assess and understand their ML/TF risks, and mitigate them, on a case-by-case basis. FATF's guidance on private sector information sharing also encourages greater collaboration and sharing of information within and among financial institutions.

The **BCBS** revised the annex on correspondent banking of its guidelines on the Sound management of risks related to money laundering and financing of terrorism in June 2017 to provide further clarification consistent with the FATF's guidance on correspondent banking services. The relevant revised text notes that "an industry-wide questionnaire may be useful, provided it is used as a starting point for the risk assessment"[1].

FATF President Santiago Otamendi stated: "The FATF supports the ongoing engagement and efforts of the international community and the private sector to promote the effective and risk-based implementation of the FATF Recommendations. Additionally, we welcome efforts to identify the underlying drivers of de-risking and take steps to address them, as appropriate. The FATF welcomes the initiative of the Wolfsberg Group in developing this questionnaire. This should lead to greater and more efficient information sharing between financial institutions to more effectively facilitate ML/TF risk management."

Edouard Fernandez-Bollo, Secretary General, Autorité de Contrôle Prudentiel et de Résolution (France) and **Chairman of the BCBS AML/CFT Expert Group** added: "Initiatives such as this one could constitute a useful starting point for the correspondent banking risk assessment processes by facilitating the initial information collection. The BCBS also encourages the industry to continue its efforts to facilitate the initial collection of information from respondent banks including developing and effectively implementing technical solutions (eg KYC utilities) to improve the efficiency of due diligence processes."

Jochen Metzger, Director General Payments and Settlement Systems at the Deutsche Bundesbank and **Chair of the CPMI Correspondent Banking Working Group** continued: "The CPMI is pleased to see that its recommendations are coming to fruition. The Wolfsberg questionnaire may help streamline the establishment and maintenance of correspondent banking relationships for those institutions that use it, and foster better standardisation of core information through KYC utilities."

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[1] See paragraph 19 of Annex 2 of the BCBS guidelines on the *Sound management of risks related to money laundering and financing of terrorism*

Alexander Karrer, Deputy State Secretary for International Finance at the Swiss Federal Department of Finance and **Chair of the FSB Correspondent Banking Coordination Group**, concluded: “A large use of the Wolfsberg questionnaire can contribute to reducing the fixed costs of maintaining correspondent banking relationships. Using the questionnaire may therefore help respondents to preserve a sufficient number of relationships, and address the risks associated with relying on too few providers. The FSB encourages banks to use the Wolfsberg Questionnaire to achieve greater efficiencies and will continue to support improved standardisation in KYC utilities through discussions with industry.”