

## **Report to the G20 on actions taken to assess and address the decline in correspondent banking**

Correspondent banking, which can be broadly defined as the provision of banking services by one bank (the “correspondent bank”) to another bank (the “respondent bank”), is essential for customer payments, especially across borders, and for the access of banks themselves to foreign financial systems. 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. At the extreme, if an individual bank loses access to correspondent banking services, this may affect its viability and if a country’s banks more generally face restricted access then it may affect the functioning of the local banking system. In addition, loss of correspondent banking services can create financial exclusion, particularly where it affects flows such as remittances which are a key source of funds for people in many developing countries.<sup>1</sup>

In January this year, the FSB agreed to coordinate work to examine the extent and causes of banks’ withdrawal from correspondent banking and the implications for affected jurisdictions including for financial exclusion, and to identify possible policy responses to address this issue. A World Bank survey of jurisdictions and banks commissioned by the FSB has confirmed that roughly half of the emerging market and developing economy jurisdictions surveyed have experienced a decline in correspondent banking services. The withdrawal is not on a global scale, but in some countries may lead to banks relying on a narrow range of providers. If withdrawals continue, this has the potential to rise to a systemic issue for the regions affected as well as to drive some payment flows underground, which would make it harder for authorities to prevent financial crime and the financing of terrorist activity.

This report describes work to date to assess and address the issue by a number of international organisations, including the Basel Committee for Banking Supervision (BCBS), Committee on Payments and Market Infrastructures (CPMI), Financial Action Task Force (FATF), International Monetary Fund (IMF), Legal Entity Identifier Regulatory Oversight Committee (LEI ROC) and World Bank.

The FSB will continue to work in partnership with these organisations to address this issue through a 4-point action plan:

1) **Further examine the dimensions and implications of the issue:** The World Bank is publishing in November the results of its correspondent banking survey, together with a report

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<sup>1</sup> In 2014, inflows from remittances were equivalent to more than 10% of GDP in 28 countries, and more than 20% for 9 of them. World Bank, Migration and Remittances Data as of October 2015, <http://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data>.

commissioned by the G20 on remittances. The survey provides information on the scale of reduction in correspondent banking, regions and types of customer most affected, and the causes of the decline. The withdrawal of services is apparently continuing. The FSB will continue to encourage the collection of information by the World Bank and other international organisations on the scale of withdrawal, its causes and effects. National authorities should also improve their own data collection. The work to date and needed next steps are described in Section I below.

2) **Clarifying regulatory expectations, as a matter of priority, including more guidance by the FATF** on the application of standards for anti-money laundering and combating the financing of terrorism (AML/CFT) to correspondent banking, especially on the customer due diligence expectations for correspondent banks when faced with respondent banks in “high-risk scenarios”, as well as additional work on remittances, financial inclusion and non-profit organisations. The FATF aims to complete its work on these four projects at its Plenary meetings of June and October 2016. Work in this area by the FATF and other bodies is described in Section II.

3) **Domestic capacity-building in jurisdictions that are home to affected respondent banks**, building upon assessments and technical assistance from the international financial institutions, the FATF and FATF-style regional bodies and the sharing of best practices within the financial industry, including by global correspondent banks with local banks. Areas for such assistance are summarised in Section III.

4) **Strengthening tools for due diligence by correspondent banks**. This includes correspondent bank information sharing, through Know Your Customer facilities and broader use of the global LEI. The CPMI and the LEI ROC have made proposals in these areas, set out in Section IV below.

## **I. Scoping the dimensions and implications of the issue**

### **1. The facts gathered so far**

The World Bank is publishing later this year the results of its survey, conducted with support from the FSB and CPMI, to assess systematically the extent of the termination or reduction of the correspondent banking services, as well as its possible causes. Survey responses were received from 91 banking authorities, 20 large banks and 170 local and regional banks. The World Bank’s correspondent banking survey results are accompanied by the results of a G20-commissioned survey of banks, money transfer operators and public authorities on the reduction of banks’ provision of services to money transfer operators and the extent to which they affect international remittance flows. The IMF has separately conducted a survey with the Union of Arab Banks in early 2015 to which 117 banks covering most member jurisdictions of the Arab Monetary Fund responded, which indicated that there has not been a systematic wholesale reduction of correspondent banking in this region, except for banks in countries subject to economic and trade sanctions. In addition, the IMF in its engagement with the largest globally systemic banks on the changing nature of financial services post-crisis found that many emerging market countries, except in Asia, are facing a decrease in the number of correspondent banking accounts. The CPMI also gathered mainly qualitative information through interviews with selected financial institutions.

### ***World Bank correspondent banking survey***

Roughly half the banking authorities that completed the World Bank survey indicated they were experiencing a decline in correspondent banking relationships.

Three quarters of the large banks responded that the number of correspondent accounts they hold for other banks had declined between end-2012 and mid-2015. The reductions in numbers varied considerably, from less than 5% to more than half in the case of one bank. This retrenchment does not appear to be offset by expansions in services from global competitors and only one of the large banks surveyed reported an increase, of limited magnitude. Similarly, on the respondent bank side, a majority of local and regional banks reported a decline in the scale and breadth of their foreign correspondent banking relationships. Most affected banks reported however that they were able, where needed, to find replacement providers of services, with second and third tier banks.

The regions most affected are the Caribbean, Eastern Europe & Central Asia, East Asia Pacific, especially small jurisdictions with significant offshore banking activities and high risk jurisdictions. The products and services identified as being most affected by the withdrawal of correspondent banking are: check clearing, clearing and settlement, cash management services, international wire transfers and for banking authorities and local/regional banks also trade finance. The customers that bore the brunt of the reduced provision of correspondent banking services are money transfer operators and other money services businesses (including remittance providers), small and domestic banks and small and medium domestic exporters. International wire transfers are the product incurring the largest decline, especially in the currencies of the jurisdictions most often mentioned as being home to financial institutions terminating/restricting relationships: the United States, European Union (United Kingdom, France, Germany, Italy, Spain, the Netherlands, Belgium, Portugal), and Canada.

As regards the causes of the phenomenon, authorities and local banks that responded to the World Bank point predominantly to risk appetite/profitability as the main drivers. Some noted that, after the crisis banks have tended to reassess the profitability of their business lines, customers and customer jurisdictions, partly in response to higher capital and liquidity requirements which are now increasingly charged to local business lines. Almost all large global banks surveyed mention “concerns about money laundering/terrorism financing risks in jurisdiction(s) of the foreign correspondent banks” (95% of large banks surveyed) and “imposition of international sanctions on the jurisdiction(s) of the foreign correspondent bank(s)” (90%) as the most important drivers. These differing perspectives are not necessarily inconsistent, as, the overall risk appetite and lower profitability may themselves be affected by money laundering risk concerns and higher costs from extra due diligence. The characteristics of those most affected – smaller jurisdictions, smaller banks, money transfer operators – point also towards a greater impact of due-diligence related issues, which tend to impose a fixed cost for each customer whatever the amount of the transactions. Therefore, while the reduction in correspondent banking is also the result of commercial business decisions and strategies, and while some account closures may be necessary when risks cannot be managed as described in Section II, improving the regulatory environment (both internationally and locally) and supporting more efficient due diligence, for instance through enhanced information sharing, can make a difference to help reverse the trend.

### ***Discussions organised by the FSB and other international organisations***

The FSB has worked with other international bodies to organise a number of meetings to supplement the information collected from surveys on the causes and effects of the reduction of correspondent banking and potential steps that could be taken to address the issue.

The FSB and World Bank organised a high-level meeting between authorities on the withdrawal from correspondent banking and other cross-border financial services in the margins of the IMF-World Bank Spring Meetings in April 2015. The FSB also organised, in coordination with other institutions, meetings between members of the FSB, other regulators and the senior officials from the financial services industry, including major providers of correspondent banking services, leading banks in emerging markets and other financial services providers, in August in New York (in cooperation with the World Economic Forum) and in October in Lima (with the IMF and World Bank).

These meetings have tended to confirm the findings of the World Bank survey and have contributed to the development of the action plan set out in this report.

The FSB, in cooperation with the IMF and World Bank, is following up with workshops for its Regional Consultative Groups in Middle East & North Africa in October 2015 and for the Americas and for Sub-Saharan Africa in December 2015.

## **2. A need for ongoing monitoring**

Authorities need to continue to monitor developments in the availability of correspondent banking. The FSB will continue to encourage the collection of information by national authorities, the World Bank and other international organisations on the scale of withdrawal, its causes and effects, including the effects on remittances and the use of alternative payment channels. National authorities should in particular improve their own data collection. Data gathered so far do not allow one to conclude that withdrawals of correspondent banking have come to an end. In addition, a number of authorities noted in their responses to the survey that they did not have systematic data on this subject.

In addition to concerns about financial exclusion, the reduction in correspondent banking raises potential financial stability issues. The CPMI notes increasing indications that cutbacks in the number of relationships as well as changes in their nature have resulted in a significant concentration of relationships in a relatively small number of service-providing institutions, which increasingly dominate this market.

This concentration may be a natural response to the profitability issue and may also facilitate the monitoring of the correspondent banking relationships. However, the concentration of correspondent banking may lead to a situation where some banks rely on a single correspondent bank for their access to major currencies; in such cases, access to only one service provider may represent a risk to the resilience of banks.

## **II. Clarifying regulatory expectations**

Some of the factors that may explain the decline in correspondent banking services, such as the legal risk of penalties in case of breach of AML/CFT standards or non-compliance with sanction regimes, or the costs of due diligence, may be compounded by uncertainty over

regulatory expectations, especially in a business where the various banks involved in processing the same transaction – such as a cross-border wire transfer – are in different jurisdictions.

**1. A number of steps have already been taken to provide clarity on some of these aspects:**

***Steps already taken by the Financial Stability Board***

The FSB has held discussions with regulators and the industry which indicate that there is interest in exploring issues such as:

- The additional customer due diligence expectations in higher risk scenarios, in line with the risk based approach.
- The expectations when dealing with “high risk jurisdictions”, and the extent to which a “high risk” qualification affects all respondent banks in a jurisdiction that has been so identified (for example, the FATF identifies jurisdictions with strategic deficiencies in AML/CFT measures, the OECD lists “uncooperative tax havens”, and other public and private sector bodies also issue classifications that may impact banks’ approaches).
- Ways to further incentivise the use of good judgement by correspondent banks.
- The use of information-sharing facilities by banks, and the extent to which such facilities might meet regulatory expectations, while satisfying data protection requirements.
- The level of due diligence expected from banks, including whether building additional trust in local supervision could avoid correspondent banks duplicating tasks that may be supervisory in nature, such as reviewing the compliance of a respondent bank with AML/CFT requirements.
- Information sharing on customers, in the correspondent banking context, in a manner which meets regulatory expectations and is also in line with data protection and privacy laws.

***Steps already taken by the BCBS***

In January 2014, the BCBS issued a set of guidelines – *Sound management of risks related to money laundering and financing of terrorism* – which provide guidance consistent with FATF standards and include an annex focusing on correspondent banking.<sup>2</sup> The annex explains that, due to the nature of the business, correspondent banks generally do not have direct business relationships with the final customers. Because of the structure of this activity and the limited available information regarding the nature or purposes of the underlying transactions,

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<sup>2</sup> <http://www.bis.org/publ/bcbs275.htm>

correspondent banks may be exposed to specific money-laundering and financing of terrorism risks. The annex provides guidance on information to be collected by correspondent banks on their respondent banks, at the beginning of the relationships and on a continuing basis after that, as well as on the policies and procedures that banks should establish to support ongoing monitoring.

### ***Steps already taken by the FATF***

On 23 October 2015, the FATF issued *Guidance on the Risk-Based Approach for Effective Supervision and Enforcement by AML/CFT Supervisors of the Financial Sector and Law Enforcement*. This guidance reiterates the existing expectation that regulators and supervisors should use a risk-based approach when supervising financial institutions for compliance with AML/CFT measures. This is not a “zero failure” or “zero tolerance” approach, which means that, when failures are detected, the regulator or supervisor should apply actions that are appropriate and proportionate, taking into account the nature of the failure. Regulators and supervisors should also ensure that financial institutions are taking a risk-based approach to implementing AML/CFT measures, without prejudice to rules-based measures such as targeted financial sanctions. Implementation by financial institutions should be aimed at managing (not avoiding) risks. This guidance also clarifies the interplay between the role of regulators and supervisors and the role of law enforcement authorities. This guidance builds on a growing body of work that the FATF has undertaken. In particular, the FATF:

- revised the [FATF Recommendations](#) in 2012 to establish the risk-based approach as a fundamental requirement of the FATF standards (work which was undertaken in consultation with the private sector)
- published guidance papers for use by governments, financial institutions and regulators, including:
  - [Guidance on AML/CFT Measures and Financial Inclusion](#) (2013)
  - [Guidance on Transparency and Beneficial Ownership](#) (2014),
  - [Guidance on the Risk-Based Approach for the Banking Sector](#) (2014)
  - [Guidance on the Risk-Based Approach for Virtual Currencies](#) (2015)
  - [Guidance for a risk-based approach for effective supervision and enforcement by AML/CFT supervisors of the financial sector and law enforcement](#) (2015)
  - [Guidance on the Risk-Based Approach for Pre-Paid Cards, and Mobile Payments and Internet-Based Payment Services](#) (2013), and
  - [National Money Laundering and Terrorist Financing Risk Assessment](#) (2013).
- discussed the decline in correspondent banking with the private sector at its [Private Sector Consultative Forum in March 2015](#) and sought feedback from them.

The FATF has also issued three public statements in [October 2014](#), [June 2015](#) and [October 2015](#) to raise awareness of the “de-risking” issue, and clarify the importance of properly implementing of the risk-based approach. Together, these public statements emphasise the following important points:

- De-risking can introduce risk and opacity into the global financial system, as the termination of account relationships has the potential to force entities, and persons into

less regulated or unregulated channels. Moving funds through regulated, traceable channels facilitates the implementation of AML/CFT measures.

- The risk-based approach is the cornerstone of an effective AML/CFT system, and is essential to properly managing risks. The FATF expects financial institutions to identify, assess and understand their money laundering and terrorist financing risks and take commensurate measures in order to mitigate them.
- The *FATF Recommendations* only require financial institutions to terminate customer relationships, on a case-by-case basis, where the money laundering and terrorist financing risks cannot be managed. This is fully in line with AML/CFT objectives and the appropriate application of the risk based approach.
- Although there will be exceptions in high-risk scenarios, the FATF Recommendations do not require banks to perform, as a matter of course, normal customer due diligence on the customers of their respondent banks when establishing and maintaining correspondent banking relationships.
- Implementation of AML/CFT measures by financial institutions should be aimed at managing (not avoiding) risks. What is not in line with the FATF standards is the wholesale cutting loose of entire countries and classes of customer, without taking into account, seriously and comprehensively, their level of money laundering and terrorist financing risk and applicable risk mitigation measures for those countries and for customers within a particular sector.

## **2. Further actions**

The FATF has initiated further work on the due diligence expected in correspondent banking which it will conduct in cooperation with the BCBS AML/CFT Expert Group and other bodies (including the FSB secretariat and CPMI). The FSB will continue to support coordination in this area, especially in areas that go beyond the scope of individual standard setters, such as the interaction with data protection issues or the wider issue of incentives in business conduct.

### ***Work currently underway by the Financial Action Task Force***

The FATF is currently undertaking four important work streams that are relevant to the issue of de-risking. Work on these four projects is expected to be completed in 2016. In particular, the FATF is:

- developing guidance to clarify how to properly identify and manage risk in the context of correspondent banking and remittances. This guidance will further clarify the interplay between the FATF standards on correspondent banking (Recommendation 13) and money value transfer services in the remittance context, and the FATF standards on customer due diligence (Recommendation 10) and wire transfers (Recommendation 16). This guidance will address the issues previously highlighted by the FATF, including the information banks are required to gather about their respondent bank and the high-risk scenarios in which correspondent banks may have to go further and perform some customer due diligence on the customers of their respondent banks.

- The FATF is also developing guidance to help money remitters identify and manage their risks, and to help banks evaluate and manage the risks of providing financial services to money remitters. This guidance will also help governments supervise these activities.
- The FATF is developing best practices on appropriate customer due diligence to facilitate financial inclusion in a manner that strikes an appropriate balance with AML/CFT objectives.
- The FATF is revising the relevant standard to help governments properly identify those non-profit organisations which are most vulnerable to terrorist financing abuse, and address those risks in a proportionate way. This work builds on the FATF Best Practices on Combating the Abuse of Non-Profit Organisations which was issued in June 2015.

The FATF and its network of FATF-Style Regional Bodies, in collaboration with the international financial institutions, continue to assess their members for compliance with the FATF Recommendations, including the effectiveness of their implementation of the risk-based approach.

### **3. Local rules may also be a source of uncertainty**

Different national implementations of international standards may also be a source of uncertainty for correspondent banking, given that multiple laws may be considered applicable to the same transaction. In this regard, FATF mutual evaluations can support information-sharing and consistency in the way the risk-based approach is implemented.

Differences will remain, including standards specific to some countries, such as economic sanctions, or the need to adapt international standards to the particular circumstances and risks of each jurisdiction. Clarity on these different expectations is key. In addition, there may be scope for addressing in a coordinated way with relevant authorities constraints to the cross-border sharing of information between financial institutions.

## **III. Domestic capacity-building in jurisdictions that are home to affected local banks**

Jurisdictions most frequently exited by large global correspondent banks seem to be those with weak supervisory and regulatory frameworks, including those with weaknesses related to AML/CFT and those which are subject to United Nations sanctions. The FATF, IMF, World Bank and FATF-Style Regional Bodies have assessed over 190 countries and territories at least once, including through FSAPs which cover an assessment of compliance with the Basel Core Principles and the FATF standard. These international bodies work with jurisdictions to address deficiencies that pose a risk to the international financial system and provide extensive technical assistance<sup>3</sup> to member countries to enhance their supervisory and

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<sup>3</sup> The FATF is not mandated to provide technical assistance. It does, however, have a mandate to work with jurisdictions and encourage them to correct deficiencies which have been identified in their AML/CFT regimes, including through its International Cooperation Review Group (ICRG) process. The FATF Plenary also endorsed in October 2015 general principles that will serve as the framework for establishing an FATF Training and Research Institute (TREIN).

regulatory frameworks. The international financial institutions will continue to support jurisdictions in conducting risk assessments and developing effective AML/CFT frameworks, as well as detecting and addressing deficiencies before these result in a reduced access to the global financial system.

Correspondent banks can also support improvements at respondent banks or better explain how respondents can proactively avoid account closures. This can include support in improvements in processes at respondent banks and in organising information sharing on customers, when justified by the circumstances, consistent with international guidance (such as described in section II), and compatible with applicable laws.

However, to preserve their correspondent banking relationships, respondent banks may also consider that they are expected, explicitly or implicitly, to reduce their services to some categories of customers perceived as higher risk in a given jurisdiction, for instance, money transfer operators or charities. While this contributes to the maintenance of correspondent banking relationships, this may result in excluding legitimate activities from accessing the regulated financial system. Authorities should help build trust in legitimate activities, for instance by making sure that money transfer operators are appropriately regulated and supervised, and by helping financial institutions better differentiate risk levels within this industry.

New payment and communication technologies may be able to play a role in offsetting the reduced availability of correspondent banking for transferring remittances, but the scope for this remains unclear at this stage. Building trust in the area of remittances, which generally involve transfers between natural persons, may require national initiatives such as those conducted in India, with the use of biometry, or the promotion of other new technologies that support both financial inclusion and transparency. These initiatives need to be tailored to local circumstances, with awareness that adoption of new technologies will create transitional challenges and need to be carefully managed.

The FSB is organising, together with the IMF and World Bank, high-level workshops in late 2015 with the FSB Regional Consultative Groups in the Middle East & North Africa region, in Sub-Saharan Africa and the Americas. These workshops will allow participants to share their experiences and explore solutions that can help improve compliance with standards, risk assessment or the development of information sharing.

The more local authorities build trust in their AML/CFT frameworks and in the quality of their supervision, the more foreign correspondent banks will be able to rely on the information they provide without multiplying costly due diligence and checks. Mutual evaluations and FSAPs can help in this regard, but it is ultimately for each jurisdiction to develop action plans as necessary.

## **IV. Strengthening tools for due diligence by correspondent banks**

The CPMI has been analysing the issue and potential technical measures, with an emphasis on payment system implications. The CPMI report<sup>4</sup>, published for consultation on 6 October, includes four recommendations, which interact in part with actions by the LEI ROC.

### **1. Use of KYC utilities**

A number of Know-Your-Customer (KYC) utilities to assist in the identification of banks have been developed recently to avoid duplicating the collection of basic information that correspondent banks usually require before opening a relationship with another bank, although the multiplicity of players and templates may limit the economies of scale.

The CPMI report invites industry bodies to review the templates and procedures used by the different utilities and identify the most appropriate data fields to compile a data set that all utilities should collect as best practice and that all banks have to be ready to provide to banks which require the information.

### **2. Recommendation on the use of the LEI in correspondent banking**

The LEI was endorsed by the G20 following the recommendation of the FSB, as a way to uniquely identify parties to financial transactions. It can help manage more efficiently large amounts of information on legal entities.

The CPMI report recommends that *“In addition to the general promotion of LEIs for legal entities, relevant stakeholders may consider specifically promoting the use of the LEI for all banks involved in correspondent banking as a means of identification which should be provided in KYC utilities and information-sharing arrangement. In a cross-border context, this measure is ideally to be coordinated and applied simultaneously in a high number of jurisdictions.”* The FSB will assist in this regard, developing by February 2016 a plan for promoting the adoption of the LEI by all banks involved in correspondent banking, in consultation with the FSB Regional Consultative Groups and other relevant stakeholders.

The CPMI also encourages mapping facilities between the Business Identifier Code (BIC),<sup>5</sup> which is the code used for routing payment messages to the right bank, and the LEI. This will help overcome the existence of multiple BIC codes for the same bank, for instance at branch level or as a result of mergers, and help match the information that will have been gathered on these banks in KYC utilities. It can also help aggregate data on correspondent banking activity at bank level, as well as at banking group level, thanks to collection of data on direct and ultimate parents of legal entities in the Global LEI System, to be initiated in 2016 following the consultation published by the LEI ROC on 7 September 2015. Therefore, it could assist authorities in monitoring concentration in the correspondent banking market.

Concerning wire transfers, the CPMI notes that the LEI may also become in the future an option for supporting the implementation of specific FATF recommendations, such as

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<sup>4</sup> <http://www.bis.org/cpmi/publ/d136.pdf>

<sup>5</sup> Formally known as “Bank Identifier Code”.

Recommendation 16 on the provision of originator and beneficiary information in payment messages. The current design of relevant payment messages does not foresee the provision of the LEI in fields containing information on the ordering customer/final beneficiary but is geared rather to the provision of other information in line with FATF recommendation 16. Therefore, the current message design provides for the information needed to identify each and every customer – corporates as well as natural persons – without the need to specify an LEI. Meanwhile, the LEI may promote the unambiguous identification of parties to a transaction, for instance improving the effectiveness of automatic screening packages, particularly for identifying sanctioned entities (e.g., reducing the number of “false positive” when screening names and addresses that only partially match the data of a given entity), albeit only for those that are eligible for an LEI.

The CPMI observes that it seems premature for the time being to promote a requirement to include the LEI in payment messages, given the relatively low current LEI coverage, and the high transition costs of changes in payment messages. However, in the long term, and as payment messages evolve, a discussion on the development of LEI dedicated codes or data items could take place and be coordinated with other necessary changes in payment message formats.<sup>6</sup> In the meantime, the FSB will continue to promote LEI use, starting with priority areas at the intersection of several regulatory needs, to be identified in cooperation with relevant authorities and standard-setting bodies. This could be a first step in developing the critical mass allowing progression towards a more universal LEI coverage of legal entities, especially for those having significant cross-border activity. Such coverage, which would presumably take several years to achieve, would be needed if the LEI is to be used to facilitate the screening of legal entities involved in international wire transfers, and would support a number of other policy objectives.

In its November 2015 progress report to the FSB and G20,<sup>7</sup> the LEI ROC described several strategies that can support LEI expansion and the merits in the various authorities considering the actions of others when assessing the costs and benefits of the LEI, because assessing a measure in isolation from other domestic or foreign rules also requiring the use of LEIs and covering some of the same population of legal entities could lead to an overestimate of the cost of the LEI coverage needed to implement a given use of the LEI.

### **3. Information sharing initiatives**

In addition to the clarification of regulatory expectations on when banks are expected to conduct some customer due diligence on the customers of their correspondent banks, and therefore be able to access such information, the CPMI recommends that the FATF and BCBS AML/CFT Expert Group be invited to (i) further clarify data privacy concerns that could prevent such access, (ii) to detail, to the extent possible, the type of data that information-sharing mechanisms could store and distribute to support customer due diligence in correspondent banking. The FATF and BCBS AML/CFT Expert Group have not determined yet the extent to which they could contribute to this work, which may also need to

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<sup>6</sup> For instance, when ISO20022 messages are considered for use in correspondent banking, as such a change would imply changes to bank IT systems in any case.

<sup>7</sup> [http://www.leiroc.org/publications/gls/lou\\_20151105-1.pdf](http://www.leiroc.org/publications/gls/lou_20151105-1.pdf)

involve data protection authorities. In order to facilitate compliance with FATF customer due diligence recommendations, the CPMI also notes that (i) the use of information-sharing mechanisms (if they exist in a given jurisdiction and data privacy laws allow this) for knowing your customers' customers could be promoted as the default first source of information, which (ii) could be complemented bilaterally with enhanced information should there be a need.

The CPMI also suggests that each respondent bank could include provisions in the contracts with its customers enabling it to share information with correspondents.

Discussions between regulators and industry indicate that several avenues can be considered to promote information sharing:

- Leverage on the already existing legal gateways to support some information sharing on customers in defined circumstances, such as USA Patriot Act sections 314 a and 314 b, which however, is limited to domestic entities and does not contemplate cross-border sharing of information, or the framework already developed to require banks to exchange information on the identification of originators and beneficiaries of wire transfers;
- Domestic databases on beneficial owners of companies, or on customers more generally; in this regard, making basic information on corporate customers more easily accessible, either in the LEI system (e.g. parent information, although this only provides information on corporate groups, not beneficial owners) or in other databases outside the LEI system but that use the LEI as the entity identifier, may be easier than authorising two banks to share private data they have on a customer; however, the experience of some jurisdictions like Mexico with providing cross-border access to non-public databases could be expanded further;
- Greater cooperation between the public sector and banks (share information on actual risks, including names, and not just anonymous theoretical cases called “typologies”);
- Better use of the information reported to Financial Intelligence Units (FIUs), including by promoting a more efficient exchange of information between FIUs; for instance, common reporting standards and information sharing, akin to what is being done for tax after FATCA, would make the AML/CFT framework more efficient and would also support monitoring and tools such as SWIFT compliance analytics. This convergence could build on the greater use of a single customer identification number for multiple purposes (e.g. tax and AML/CFT). The emerging use of the LEI by market authorities to support monitoring market manipulation and insider dealings will also provide lessons that could be used in the AML/CFT area.<sup>8</sup>

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<sup>8</sup> For instance, in the European Union, ESMA published on 28 September 2015 a draft regulation that will require, from July 2016, the use of the LEI in the reporting of suspicious transactions and orders to authorities, for the identification of (i) the reporting entity and (ii) the suspected entity (if the entity has an LEI). The use of a unique international identifier like the LEI can help different FIUs to find out more rapidly that transactions by the same entity were reported to them, and can help FIUs to send to other FIUs or financial institutions information requests or alerts that would be easier to process automatically, thus improving response times and cost efficiency.

These initiatives are not necessarily limited to promoting the due diligence by correspondent banks and can also help the efficiency of AML/CFT frameworks at respondent banks, and the trust that correspondent bank can place in them.

#### **4. Payment messages**

The CPMI also recommends that the financial industry determine if any adaptation of the use of payment messages should be made, to serve the needs of clients, the industry and law enforcement in light of the fee structure, technological changes and payment capabilities for processing correspondent banking payments.

### **Summary of actions to assess and address the decline in correspondent banking:**

- The World Bank will continue monitoring the scale of withdrawal, its causes and effects and make recommendations, as necessary, for promoting monitoring by local authorities, with a report to the FSB by September 2016. In countries most affected, IMF surveillance can also help assess the macroeconomic impact.
- The FATF will clarify regulatory expectations in the area of correspondent banking, in cooperation with the BCBS AML/CFT Expert Group. The FATF aims to complete the actions identified in its October 2015 statement at its Plenary meetings of June and October 2016. The FSB will continue to support coordination in this area, especially in areas that go beyond the scope of individual standard setters, such as the interaction with data protection issues or the wider issue of incentives in business conduct.
- International financial institutions, the FATF and FATF-style regional bodies will, through assessments and technical assistance, support jurisdictions in identifying and addressing their weaknesses in AML/CFT compliance, as well as conducting risk assessments and developing AML/CFT frameworks.
- Building on the proposals and regulatory expectations from relevant authorities and standard setting bodies, the financial industry should discuss how correspondent banks can work with respondent banks to support improvements in processes at respondent banks and organise information sharing on banks and customers.
- The FSB to facilitate dialogue among banks and authorities, to share their experiences and explore solutions that can help improve compliance with standards related to AML/CFT and implementation of international economic sanctions, risk assessment or the development of information sharing, including through organising regional workshops in collaboration with the IMF and World Bank.
- CPMI will provide an update at the FSB meeting in March 2016 on the progress of its work to finalise its report on correspondent banking.
- FSB will develop by February 2016 a plan for promoting the use of the LEI by all banks involved in correspondent banking as a means of identification which should be

provided in KYC utilities and information-sharing arrangement, in consultation with the FSB Regional Consultative Groups and other relevant stakeholders.

- FSB will continue to promote LEI uses, and identify by March 2016 priority areas at the intersection of several regulatory needs, in cooperation with relevant authorities and standard setting bodies.
- LEI ROC will initiate the collection of data on direct and ultimate parents of legal entities in the Global LEI System by the end of 2016.