



Financial Integrity
Working Group



Secretariat of the Basel Committee on Banking Supervision
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Your reference
Our reference FINTWG/BCBS/09/2013
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RE: AFI Financial Integrity Working Group comments on Basel Committee on Banking Supervision *Sound management of risks related to money laundering and financing of terrorism - consultative document (2013)*

Dear Sirs

The Alliance for Financial Inclusion (AFI) is a global network of financial policymakers from developing and emerging countries who work together to increase access to appropriate financial services for the poor.

The AFI Financial Integrity Working Group (FINTWG) read the consultative document with great interest, especially as AFI engaged the Financial Action Task Force (FATF) during the drafting of its revised Recommendations and its revised assessment methodology. AFI was also a member of the project group that drafted the financial inclusion guidance that was issued by the FATF.

This paper is particularly important as it should shed light on the alignment between the standards of the Basel Committee on Banking Supervision (BCBS) relevant to anti-money laundering (AML) and counter terrorist financing (CFT) and the standards set by the FATF. Given AFI's focus on financial inclusion we are especially interested in the BCBS guidance on management of lower risk products and customers and the management of simplified Customer Due Diligence (CDD).

The paper provides an opportunity to address an apparent conflict between the BCBS standards on CDD and the FATF standards. In 2012 the FATF embraced a mandatory risk-based approach that requires enhanced CDD where risks are assessed as higher and allows simplified CDD where risks are assessed as lower. In the same year the BCBS adopted its new *Core Principles for Effective Banking Supervision* (2012). In terms of BCP 29 all banks should be required to “have adequate policies and processes, including strict customer due diligence (CDD) rules to promote high ethical and professional standards in the banking sector and prevent the bank from being used, intentionally or unintentionally, for criminal activities” (own emphasis). By using “strict” it seems as if the BCBS is signaling that banks should not employ simplified CDD where warranted by an appropriate assessment.

It is of course possible to reconcile the apparent contradictory approaches but the current draft of the paper unfortunately does not address the matter. We look forward to a more detailed discussion of the meaning of “strict” in the next draft.

The following matters are also of interest to AFI:

- 1 The BCBS document focuses on profiling of customers while the FATF standards focus on customer due diligence. Guidance on customer profiling where product risk is lower and simplified CDD is implemented, is required. The guidance should address, amongst others, whether profiling is required and, if so, what the minimum information is that must be collected on customers.
- 2 The discussion paper outlines systems and processes that banks should employ to manage their money laundering and terrorist financing risks. The requirements are mainly aimed at large, capacity- and resource-rich institutions. More detailed guidance on the systems and processes required by small banks that mainly serve low income customers will be very helpful.
- 3 The discussion paper provides more detailed guidance on implementing consistent and uniform compliance policies and procedures in banking groups that operate in more than one jurisdiction. It also provides guidance on home country supervision of AML/CFT compliance of such international banking groups. Uniformity and consistency have however the tendency to erode space for responses in host countries that adapt to lower risks and advance financial inclusion. The paper should recognise this risk and provide guidance on how banks and home country supervisors should prevent adopting a uniform approach that aims at standard and enhanced CDD and leaves insufficient space to employ simplified CDD in host countries, where appropriate.

The formulation of global guidance that aligns financial integrity and financial inclusion has proved challenging. AFI would welcome an opportunity to engage the BCBS on appropriate guidance and to work with the BCBS, the FATF and other key stakeholders to find appropriate solutions.

Yours sincerely

AFI Financial Integrity Working Group