



COMMENTS FROM THE ASSOCIATION OF SUPERVISORS OF BANKS OF THE AMERICAS (ASBA) TO THE CONSULTATIVE REPORT

“Correspondent Banking”

(ISSUED BY THE COMMITTEE ON PAYMENTS AND MARKET INFRASTRUCTURES FOR COMMENTS BY 7 December 2015)

I. Introduction

The Committee on Payments and Market Infrastructures (CPMI) Working Group on Correspondent Banking has prepared this technical report describing current trends and analyzing technical measures that might alleviate some of the concerns and cost issues related to correspondent banking.

In turn, the CPMI proposed “technical measures that could help improve the efficiency of procedures, reduce compliance costs and help address perceived uncertainty, without altering the applicable rules and the basic channels for correspondent banking services between correspondent and respondent banks.”

The group's presents recommendations in the following four groups:

1. Recommendation on the use of KYC utilities.
2. Recommendation on the use of the LEI in correspondent banking.
3. Recommendation on information-sharing initiatives.
4. Recommendation on payment messages.

II. Purpose of the revision

The report was published to seek public comment on the above mentioned technical recommendations.

In this respect, the Association of Supervisors of Banks of the Americas (ASBA) agrees on the fact that correspondent banking is an essential component of the global payment system, especially for cross-border transactions. Therefore, as required, it would like to make the following comments on the report and its specific sections, going from general to specific, according to the proposed grouping for technical recommendations.

I. General Comments

1. Although the report states that correspondent banks interviewed have indicated that the increasing costs of AML compliance are one of the main drivers for cutting back their correspondent banking relationships, it does not address the reasons why costs have suddenly increased to force banks to exit the correspondent relationship.
2. Also, the report does not explore certain key issues such as reasons for the sudden increase in de-risking in recent times and the perceived obligation for knowing your customer's customers ("KYCC").



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3. The report would also be more comprehensive if it included a discussion on money remittance businesses ("MSBs"), which are being derisked on the advice of correspondent banks.
4. For some regional countries, the provision of banking services to MSBs is one of the main reasons cited by banks for the loss of correspondent relationships. As a result, MSBs and their customers are severely affected by the reduction of correspondent banking activities. For this reason, we advise the Report to explore the reasons behind correspondent banks' concerns with MSBs and provide recommendations to address the de-risking of MSBs or de-risking of respondent banks due to the provision of services to MSBs.

I. Specific Comments

1. Recommendation on the use of KYC utilities.

1.1 The SWIFT KYC Registry appears to be the most equitable solution as most jurisdictions use SWIFT. Therefore, it can be stressed in the Report that a move to suggest mandatory participation, or creating sufficient incentives to do so, should be considered by regulators. It would also be of interest to know what has been the response of the regulators in jurisdictions most heavily impacted by the reduction in correspondent banking services; for instance, regarding the reduced ability to conduct adequate due diligence with regards to bank customers. (*Cf. Page 11, Paragraph 3 on KYC Utilities*).

1.2 The Report states that centralized and standardized KYC repositories support banks in meeting their Customer Due Diligence (CDD) obligations. However, reliance on such argument is limited by the extent to which the information is accurate and current. We, therefore, agree to state in the Report that there are benefits if an appropriate body could agree in every jurisdiction, or even internationally, on a minimum set of information that must be provided by banks and that there must be a reliable mechanism for validating the information provided. Additionally, limitations on data privacy laws in some jurisdictions will have to be thoroughly explored, and solutions recommended, for banks to realize the full benefits of a centralized repository. (*Cf. Page 14, Paragraph 6*).

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

2.1 The Report makes several recommendations regarding the potential use of Legal Entity Identifiers ("LEI") in correspondent banking. It is important to note that the concept of



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LEIs and its use is at a very early stage, with many entities worldwide not having an LEI or indeed not being aware of the LEI concept as such. Thus, the potential for LEIs as a KYC solution is long-term. The LEI concept also does not capture individuals. This means that it would not alleviate KYCC concerns relating to MSBs and their clients, as such clients are individuals on a predominant basis. (***Cf. Section 3.3, page 15 onwards***).

- 2.2 On the other hand, and rather than developing a centralized KYC repository, there is the option of LEI (Legal Identity Identifier) that seems to be a robust and possibly a more widely recognized standard for identification of legal entities engaged in financial transactions. In this vein, it can be stressed in the document that the necessary framework for LEI is already in place with a validation process and ongoing review for a continued certification and that its use; however, seems to be limited to specific transactions and reporting requirements at this time. (Penetration and coverage also seem to be limited at this time).
- 2.3 Also, it is unclear whether the practical operational aspect of mapping/matching the LEI to the BIC (Business Identifier Code) has been explored, and whether it is economically feasible to do so in the payment message. Therefore, and notwithstanding the added value of the LEI, it should also be noted in the Report that LEI cannot be relied on wholly for KYC information, and its use must be complemented with other tools for identification. (***Cf. Page 15, Paragraph 3.3.2 on LEI and Correspondent Banking***).
- 2.4 Central Banks and relevant regulators should also, as far as possible, explore becoming Local Operating Units for the issuance and management of LEIs (aka LOUs) to manage the registration of local institutions. However, this will only be effective if there is a standardization by international service providers such as SWIFT and to incorporate such information in their messages. (***Cf. Page 15, as well as other references to LOUs.***).

3. Recommendation on information-sharing initiatives.

- 3.1 While the initiative proposed in the document related to the development of centralized databases will in turn support AML/CFT purposes, there are at least two issues that can be thoroughly incorporated to allow for practical implementation. Namely, more specific recommendations on (i) How to address data privacy issues, both from the contractual arrangement between the bank and its customer; and (ii) Cross-border limitations in the information exchange. Doing so, will allow for a full 'legitimate' access to information and data security that has to be carefully considered particularly given the upsurge in



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cybercrime issues. For these purposes, reciprocal arrangements such as memoranda of understanding can also be envisioned into this paragraph so as to allow effective access to data. (**Cf. Page 20, Paragraph 2**).

- 3.2 The establishment of a centralized database for sharing Customers’ due diligence information is one of the recommendations made in this Report. According to it, banks would provide information on the identities, business, and transactions of their customers active in cross-border payment services. Since the provision of banking services to MSBs is currently still viable, sharing of customer information with MSBs could give some comfort to correspondent banks and all other agents involved. However, the volume of data this exercise would generate needs thorough consideration. Furthermore, it is not clear whether the centralized database refers only to information on the clients of the bank or would also permit a look through the underlying customer of the banks (e.g. the customer of an MSB). (**Cf. Page 22, Paragraph 5**).

4. Recommendation on payment messages.

- 4.1 Regarding flows for banks with established credit or pre-funding relationships, the cover method is considered to be faster and a good solution. However, there may be problems in unwinding (closing out positions that have offsetting investments or in the correction of an error), which is never an efficient solution, especially, for those banks without credit relationships. In this regard, it is recommended that all interested parties, including local regulators, would determine whether or not the type of message used reasonably meets their requirements regarding efficiency and security of transactions. (**Cf. Page 27, Paragraph 6, Message Flow**).