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

Guidelines: Revised Annex on Correspondent Banking

(ISSUED BY THE BASEL COMMITTEE ON BANKING SUPERVISION FOR COMMENTS BY 22 February 2017)

I. Purpose of the revision

The consultative document "Guidelines: Revised Annex on Corresponding Banking" proposes changes to Annex 2 (about *Correspondent Banking*) and Annex 4 (regarding the *General Guide to Account Opening*). Both Annexes are part of the Basel Committee on Banking Supervision *Guidelines on Sound Management of Risks Related to Money Laundering and Financing of Terrorism*, which in turn were first issued in January 2014 and revised in February 2016.[1]

"The purpose of the proposed revision is to ensure that banks conduct correspondent banking business with the best possible understanding of the applicable requirements regarding anti-money laundering and countering the financing of terrorism. The clarifications are proposed as the international community has been increasingly concerned about de-risking in correspondent banking, since a decline in the number of correspondent banking relationships may affect the ability to send and receive international payments, or drive some payment flows underground."[2]

The Basel Committee on Banking Supervision is looking to clarify some concepts and make them consistent with the overall FATF standards and guidance.

Also, the revision is founded on a risk-based approach for correspondent banking relationships, and on the recognition that not all correspondent banking relationships bear the same level of risk.

Following are the responses of the Association of Supervisors of Banks of the Americas (ASBA), based on the opinion of its members, to the consultative document.

I. Responses to Specific Questions Contained in the Document

1. *Would it be useful for this guidance to further detail the sort of information a correspondent bank could acquire from a KYC utility on the respondent's customer base? Do you agree that the information set out below could be useful and realistically obtained?*

   It would be helpful to detail further the sort of information a correspondent bank could acquire from a KYC utility on the respondent's customer base, for instance, about the following:

   a. Proportion of high-risk clients of the respondent bank;

   b. General classification of customers based on their economic activities.

[1] Guidelines on Sound Management of Risks Related to Money Laundering and Financing of Terrorism. Basel Committee on Banking Supervision. February 2016. http://www.bis.org/bcbs/publ/d353.pdf
[2] Revised Annex on Correspondent Banking. Basel Committee on Banking Supervision. November 2016. http://www.bis.org/bcbs/publ/d389.pdf

Further detailing this information would help set the tone for a minimum standard and provide assurance that the obtained information is adequate.

The information in Annex 2, could be gathered in some economies of the Americas; even, if most of the correspondent banks acquire it from questionnaires or through applying the Wolfsberg questionnaire.

2. *Would it be useful for the Committee to elaborate further on how a correspondent bank should conduct the assessment of a respondent bank's AML/CFT policies and procedures, e.g., via the use of internal audit reports, or are paragraphs 21–2 sufficient in that respect?*

   The alternative described in paragraphs 21–22 is sufficient and adequate on how a correspondent bank should conduct the assessment of a respondent bank's AML/CFT policies and procedures.

   Also, independent AML audits could be useful to assess the effectiveness (or efficient implementation) of the respondent bank's AML/CFT systems, policies, and procedures.

3. *Considering the existing Committee publication, would it be useful to: (i) insert the content already included in paragraphs 37–40 of the 2009 publication in this Annex, or (ii) detail further the expectations with respect to quality of payment messages, and, if yes, do you have suggestions?*

   Inserting the content already included in paragraphs 37–40 of the 2009 publication in this Annex would help to get a direct reference to its relevant sections.

   Also, the quality of the payment messages' approach is addressed adequately in the document. Therefore, it is not necessary to detail further the expectations on this matter since FATF Recommendation 16, and its interpretative note set the cross-border wire transfers' requirements.

Comments to Annex 4 (6ter):

1. Under certain circumstances, the bank would need to verify or corroborate the information provided and even collect additional information. Thus, it would be useful if the bank could use, as a complement to the considerations contained in the document, the following:
   a. The total number of accounts that each customer holds with the bank (past and present);
   b. If any accounts were either closed or imposed restrictions; citing the reasons for either action.

II. Additional Comments/Suggestions

1. In *General considerations on cross-border correspondent banking* Paragraph 1, it is stated that " ... this Annex focuses on higher-risk correspondent banking relationships, especially cross- border correspondent banking."

   The above introductory statement may raise questions as to what could be considered a higher risk correspondent banking relationships. A point of reference about lower-risk correspondent banking relationships would be necessary to provide guidance as to what relationships should be considered higher-risk. This guidance would be useful, especially since paragraph 5 states that correspondent banking is seen as higher risk.

2. On page 5 (d) *Types of services the respondent bank offers to nested banks*. It would be recommendable to change "Nested banks" for "Nested financial institutions" since the service can be provided not only to banks. This comment applies to the Guidance as a whole.

3. About the use of databases. It would be ideal to have further guidance: on the quality and reliability of backup facilities; a risk assessment of countries where databases are stored; as well as the confidentiality laws of the relevant jurisdictions that could protect the information stored in them. Also, guidance on whether correspondent banks should have access to these facilities to obtain KYC information would be useful.

4. Finally, it may be stated that by properly applying due diligence requirements, correspondent banks could gather better information to devote their efforts and resources to identify and target particular types - and profiles - of clients, according to differentiating categories. Certain metrics to do so may include:

   a. The classification of clients according to their economic activity;
   b. The ratio of natural persons over legal entities;
   c. The level of risk (high, medium, low) and the development of the corresponding methodology to identify such risk categories;
   d. The proportion of PEPs on total clients base;
   e. Number of non-resident clients operating in geographical regions considered high risk; and,
   f. The proportion or detail of significant depositors in the entity.