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EACB Answer
to the Consultative report on Correspondent Banking
Committee on Payments and Market Infrastructures

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Introduction

The EACB welcomes the opportunity to participate in the public consultation on the report on Correspondent banking of the BIS Committee on Payments and Market Infrastructures (CPMI). In broad terms, we share the analysis and approach to correspondent banking adopted by the CPMI. The EACB acknowledges the relevance of this consultation as the previous step before any potential implementation of the four technical measures (recommendations) put forward to facilitate correspondent banking. Therefore, the EACB comments will focus on these four recommendations.

Recommendation on the use of “Know-your-customer” (KYC) utilities

With the objective to reduce KYC compliance costs, the CPMI recommends to promote KYC utilities in the field of correspondent banking. The procedures and templates used by these utilities to ensure the exchange of relevant KYC information between correspondent and respondent banks would however need to be standardized.

The EACB considers that the suggested standardization of templates and procedures could indeed bring advantages in the context of both the processing and updating of KYC information.

Having said that, we would like to stress that some of the needed KYC information is publicly available (i.e. executive management, financial results, product and services offered to customers, Wolfsberg questionnaire). Therefore it would be helpful to focus on ensuring access to not always publicly available information as the beneficial ownership structure (showing all layers), source of funds and assets, main customer focus (i.e. private, retail, corporate or FI customers) to facilitate a proper KYC process.

In addition, following the trend not to focus on KYC documents only but rather to evaluate the transaction behavior of customers on an ongoing basis as part of the KYC process, it would be helpful to have access to up-dated information on economical and regulatory changes (i.e relating to tax, AML, handling of bearer shares), especially in countries considered as being high risk. This could support to shorten the time consuming transaction monitoring process and assist a better understanding of the customers transaction behavior, especially when changes occur.

Recommendation on the use of the Legal Entity Identifier (LEI) in correspondent banking

The CPMI recommends promoting the use of the LEI as a means to “unambiguously” identify financial institutions involved in correspondent banking. This could bring specific benefits for effective compliance with AML/CFT requirements. This recommendation has significant interdependencies with other technical measures related to KYC utilities (section 3.2) and information sharing (section 3.4).

The EACB is very reluctant regarding the proposal to use the LEI in the area of payments to identify banks involved in correspondent banking. Indeed, we would like to stress that the realization and the implementation cost of the measure are very important and will exceed the expected benefit.



Recommendation on information-sharing initiatives

Under some circumstances correspondent banks need to fulfil due diligence obligations implying the verification of the identity of the respondent bank's customers. This process of "know your customer's customer" (KYCC) substantially increases the complexity of AML/CFT checks. In this framework, the CPMI encourages the ongoing work at international level (i.e. FATF and BCBS) to bring further clarity regarding the KYCC obligations. In order to address the complexities involved in KYCC, the CPMI recommends the promotion of information-sharing mechanisms complemented with bilateral exchanges of information.

KYCC requirements could also eventually render the structural functioning of the automated AML/CFT systems and processes ineffective. The reason being that it would be difficult if not impossible to verify –possibly large - amounts of data on the customer's customers within tight processing time-frames required by payment and civil law provisions and to carry out any meaningful due diligence in that respect.

The EACB perceives the recommended sharing of information as being difficult to implement. The perceived difficulties are linked to the need to comply with bank secrecy as well as payment and civil law requirements. Furthermore, the EACB understands that part of the information that would have to be shared is sensitive in that banks might not want to share it with competitors.

Additionally, banks would still have to verify this information and verifying the information on a customer's customers obtained by information sharing is difficult if not impossible. Thus the value of the information for further due diligence purposes is at the very least questionable.

The EACB encourages the CPMI to coordinate with the FATF and the BCBS its activities concerning the KYCC issue. In the meantime, we consider it is more appropriate to hold back the implementation of this recommendation until further clarity is brought by the coordinated work of the CPMI, FATF and the BCBS.

Recommendation on payment messages

Correspondent banking often implies that the respondent bank does not hold directly an account on the correspondent banking receiving the payment. This situation requires that the payment and therefore its underlying messages have to be channeled through intermediary financial institutions. The CPMI report presents the advantages and disadvantages of two different methods for sending messages between the actors involved in a correspondent banking transaction: the serial method (MT103) and the cover method (MT202COV). The CPMI recommends the relevant stakeholders to determine which method should be promoted.

The EACB would like to stress that both the serial method (MT103) and the cover method (MT202COV) are interesting. We consider that having access to both methods would allow the banking industry to better manage business relationships with counterparties. Additionally, diversity would allow for selecting on a case-by-case basis the most appropriate method according to the specific situation and opportunities involved.

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The EACB trusts that its comments will be taken into account.

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