Comments on BIS Consultative Report on Correspondent Banking

- December 2015-

Recommendations		Response	
Topic	**Detail**	**Interpretation**	**Feedback**
Recommendation on the use of KYC utilities	The use of KYC utilities in general – provided that they store at least a minimum set of up-to-date and accurate information - can be supported as an effective means to reduce the burden of compliance with some KYC procedures for banks active in correspondent banking business. Relevant stakeholders (e.g. the Wolfsberg Group) may 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.	"Third Party" Verification in FirstRand terms. • Bankers Almanac • Depository Trust & Clearing Cooperation (DTCC) – Clarient Entity Hub • Markit │ Genpact • SWIFT KYC Registry • Thomson Reuters Accelus	Supported provided that the regulators agree on a standardised methodology, risk parameters and uniform evaluation criteria. The standard Wolfsberg Correspondent Banking questionnaire should serve as a point of departure, provided that it is expanded to provide for an optional EDD section in order to guide what the international standard of EDD on correspondent banks should look like.
Recommendation on the use of the Legal Entity Identifier (LEI)[1] in correspondent banking	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 arrangements. In a cross-border context, this measure is ideally to be coordinated and applied simultaneously in a high number of jurisdictions. In addition, authorities and relevant stakeholders (e.g. the Wolfsberg Group) may consider promoting BIC to LEI mapping facilities which allow for an easy mapping of routing information available in the payment message to the relevant LEI.	Use an existing ISO standard and expand usage thereof.	Supported.
Recommendation on information-sharing initiatives	The work already conducted by the authorities with responsibility for AML / CFT (i.e. the Financial Action Task Force (FATF) and the Basel Committee on Banking Supervision AML/CFT Expert Group (AMLEG)) is very much appreciated. It is recommended that the FATF and AMLEG be invited to: (i) provide additional clarity on due diligence recommendations for upstream banks, in particular to what extent banks need	Request further clarification from international standards setting groups such as FATF and regulatory / supervisory bodies to provide more detailed guidance.	Supported. Internationally banking regulators should take cognisance of the greater need to share information which may currently be subject to bank secrecy laws and adapt regulation accordingly.

[1] Basic background information on the LEI and current issuance status

The LEI (ISO standard 17442:2012) is a 20-digit alphanumeric reference code to unambiguously identify legal entities that engage in financial transactions. Each LEI is assigned to a unique legal entity and each legal entity may have only one LEI. The LEI code is associated with reference data, currently including basic identification information, such as the official name of the legal entity and the address of its headquarters. It is expected that the standard will be enhanced in the future so that the reference data will also include the direct and ultimate parent(s) of legal entities and also information on relationships (including ownership). It is important to highlight that the LEI is envisaged for the unambiguous identification of legal entities (and trusts), but is not applicable to natural persons. The LEI is not intended to be a source of AML information, nor is it used as a routing code for cross-border payments (instead, the Business Identifier Code (BIC) is widely used for this purpose). LEIs are issued in various jurisdictions through Local Operating Units (LOUs), which issue LEIs against a fee and validate the reference data upon issuance and following periodic certifications. LOUs make the LEIs and the associated reference data publicly available free of charge. Once a legal entity has obtained an LEI, it cannot obtain another, but it can transfer the maintenance of its code from one LOU to another. The coordination of the LEI system on a global basis is done via the GLEIF (Global LEI Foundation),14 established in 2014 as a not-for-profit organisation, which coordinates the activities of the LOUs and supports the maintenance of the centralised database of identifiers and related reference data.

As of end-2014, more than 330,000 legal entities from 189 countries had obtained LEIs from the 20 operational LOUs endorsed for issuing globally compatible codes after meeting defined standards. The current usage of the LEI focuses mainly on derivatives transaction reporting and other regulatory reporting issues (eg the European Banking Authority (EBA) recommends the LEI as unique identification code for supervisory purposes for every credit and financial institution in the European Union).

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	to know their customers' customers ("KYCC"); (ii) further clarify data privacy concerns in the area of correspondent banking; and (iii) detail, to the extent possible, the type of data that information-sharing mechanisms could store and distribute in order to be a useful source of information. In order to facilitate compliance with FATF customer due diligence recommendations, (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 first source of information by default, which (ii) could be complemented bilaterally with enhanced information should there be a need. In order to support information-sharing in general, the respondent bank may include provisions in its contractual framework with its customers (e.g. in the terms and conditions or in a supplementary agreement) which allow the bank to provide such information on request to other banks for AML/CFT compliance purposes.		
Recommendation on payment messages	It is recommended that the relevant stakeholders determine whether the MT 202 COV payment message is as efficient and effective as intended or whether relying only on the MT 103 and the serial processing method would better 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. The Wolfsberg Group seems to be the most appropriate body to review the issue and to initiate a recommendation in this field and lead any consequential changes if required.	The current proposed "standard" being the MT 202 COV payment message must be reconsidered.	Agreed. However Wolfsberg is not a legislative body and hence any recommendation may find only limited application in certain jurisdictions It would also be appropriate to include SWIFT and other cross border payment facilitators in the consultation.

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Observations on Executive Summary		
Number	**Executive Summary**	**Response**
1	In view of the importance of correspondent banking, the keen interest of central banks in this activity and the trends that point to risks to its safe and efficient functioning, the BIS Economic Consultative Committee (ECC) Governors have mandated the CPMI to produce a report on this issue. In response, the CPMI Working Group on Correspondent Banking has prepared this technical report describing current trends and analysing technical measures that might alleviate some of the concerns and cost issues related to correspondent banking.	Agree
2	Banks have traditionally maintained broad networks of correspondent banking relationships, but there are growing indications that this situation might be changing. In particular, some banks providing these services are reducing the number of relationships they maintain and are establishing few new ones. The impact of this trend is uneven across jurisdictions and banks. As a result, some respondent banks are likely to maintain relationships, whereas others might risk being cut off from international payment networks. This implies a threat that cross-border payment networks might fragment and that the range of available options for these transactions could narrow.	In addition to the observations made, the impact of crypto currencies, and the advances in technology to where physical origin and location are becoming less and less important for transactions to take place must be considered carefully.
3	Rising costs and uncertainty about how far customer due diligence should go in order to ensure regulatory compliance (i.e. to what extent banks need to know their customers' customers - the so-called "KYCC"-) are cited by banks as among the main reasons for cutting back their correspondent relationships. To avoid penalties and the related reputational damage correspondent banks have developed an increased sensitivity to the risks associated with correspondent banking. As a consequence, they have cut back services for respondent banks that (i) do not generate sufficient volumes to overcome compliance costs; (ii) are located in jurisdictions perceived as very risky; or (iii) provide payment services to customers about which the necessary information for an adequate risk assessment is not available.	Agree
4	The regulatory framework, and in particular the AML/CFT requirements and the related implementing legislation and regulations in different jurisdictions, are taken as given in this report. It is acknowledged that these requirements, as agreed by the competent authorities, along with strict implementation, are necessary to prevent and detect criminal activities and ensure a healthy financial system.	Noted
5	The working group believes that its recommendations might alleviate some of the costs and concerns connected with correspondent banking activities. However, the members are aware and would like to stress that, in isolation; these technical measures will not resolve all such issues. The working group acknowledges that the issues surrounding the withdrawal from correspondent banking are very complex and that costs related to AML/CFT compliance are only one of the elements that have to be considered in order to understand recent trends. Those include business considerations as well as economies of scope and scale issues. Limiting information challenges through the use of enhanced technical tools will only address part of AML/CFT compliance costs but does not resolve issues such as uncertainty about how far customer due diligence should go. In particular, the proposed technical measures will not immediately help the banks without access to correspondent banking services to gain such access.	Agree