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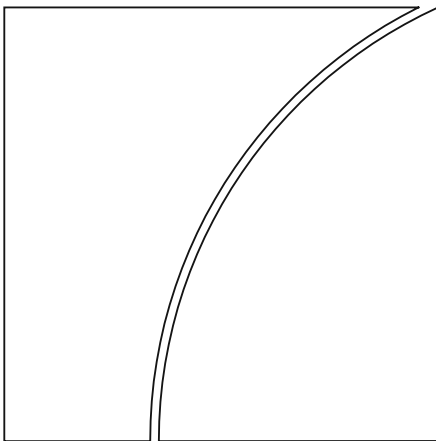
Closing the loop: AML/CFT supervision of correspondent banking

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Closing the loop: AML/CFT supervision of correspondent banking¹

Executive summary

International payments are cleared and settled mainly through correspondent banks. Although the cross-border payment market is evolving rapidly, the share of alternative channels in the market for cross-border payments remains small, so that correspondent banking still plays a critical part in the global economy. Correspondent banking relationships allow banks to process cross-border payments without having physical presence or legal domicile in other jurisdictions. This functionality provides a flexible and regulated channel with a potentially worldwide reach, thus supporting cross-border trade and investment, economic integration and financial inclusion.

A correspondent bank typically has limited information about the respondent bank's customers and the nature of their transactions. Correspondent banks rely on their understanding of the respondent banks' anti-money laundering (AML) and countering the financing of terrorism (CFT) and proliferation financing (CPF) programmes. This reliance may expose the correspondent bank to weaknesses in the respondent bank's programmes for AML/CFT/CPF, increasing the associated risks.

Correspondent banking has become more concentrated, to the potential detriment of market integrity, financial inclusion and economic prosperity. This results from the shrinking number of relationships combined with an increase in the value and volume of international transactions. The concentration reflects profitability issues and changes in global business strategy, as well as concerns over ML/TF/PF risks and regulatory uncertainty. If entire customer segments lose access to these financial services, trade, investment, remittances and economic growth may be endangered. The possible exclusion of customers from the regulated financial system may also increase money laundering (ML), terrorist financing (TF) and proliferation financing (PF) risks by driving activity into unregulated and non-transparent channels.

Measures are under way to address the decline in correspondent banking relationships. Under the auspices of the Financial Stability Board's four-point action plan, several international organisations have taken measures to assess the decline and implications for financial inclusion and financial stability; clarify regulatory expectations; support domestic capacity-building in jurisdictions that are home to affected respondent banks; and strengthen tools for due diligence by correspondent banks.

AML/CFT/CPF supervision at the national level is crucial to successfully addressing some of the concerns which may lead to loss of relationships. This paper aims to contribute to the international dialogue by focusing on supervisory practices relating to correspondent banking activities. In view of the observed decline in correspondent banking relationships, practices to address excessive de-risking were a particular area of consideration. As a general matter, while the study found that legal and regulatory

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frameworks are consistent with international standards, their implementation is more variable and sometimes needs further work to satisfy international standards.

Authorities have taken a range of measures to clarify supervisory expectations for correspondent banking in a two-way dialogue with the industry. These include regulatory standards, detailed guidelines and official statements, specifying in particular that no KYCC requirements apply. In addition, some authorities provide practical guidance and clarity in the form of typologies, good and bad practices and case studies to explain how banks fall short of expectations. Similarly, financial institutions provide valuable input in reaching national risk assessment determinations. This two-way dialogue on risk can significantly enhance the effectiveness of AML/CFT/CPF frameworks.

A key challenge of the risk-based approach (RBA) is to achieve supervisory consistency. This is a particular challenge in the supervision of correspondent banking and highlights the need to properly convey supervisory expectations. The RBA involves extensive use of judgment on the part of banks and supervisors. Accordingly, most of the supervisory processes surveyed include detailed supervisory manuals and a review stage to ensure a minimum level of quality and homogeneity in the supervisory findings. In addition, authorities employ a variety of tools to train personnel and disseminate good practice. There may be more authorities could do to publicise these tools and explain the principles of the RBA's application to supervisors, although some have already taken steps in this regard.

While the legal frameworks in most jurisdictions allow for flexible enforcement actions, authorities differ in the extent they use this flexibility in practice. Enforcement powers range from simple notification of gaps all the way to enforcement actions such as large fines or revoking licenses. Jurisdictions recognise that robust enforcement actions should be reserved for serious breaches of regulatory requirements. In addition, authorities largely agree that sanctions should carry a message for the public in principle and several jurisdictions make sanctions public in sufficient detail to accomplish this goal. However, jurisdictions appear to diverge in applying dissuasive enforcement actions for the most egregious cases. More stringent and targeted enforcement, including against natural persons, and more robust communication may therefore sometimes be needed to avoid blanket de-risking by correspondent banks. The more rigorous the supervision that respondent banks undergo, the less risk those respondents will pose to their correspondents and the more confidently those correspondent banks will provide their services. Applying strong enforcement with clear and detailed explanations for the public in serious cases will add to that confidence.

Cooperation and information-sharing within and across jurisdictional borders is an essential component of surveyed jurisdictions and should therefore be regularly reviewed and where necessary updated. In general, authorities and foreign supervisors can help each other in conducting an investigation, examination or enforcement action. In some cases, however, authorities face obstacles in the form of data privacy or localisation requirements. These obstacles highlight the need for authorities to review and balance the objectives of data privacy vis-a-vis financial transparency as well as the need to review information-sharing frameworks to identify or establish appropriate legal gateways for exchanging data, bearing in mind that improved cooperation can help to reduce unwarranted de-risking.

Innovative tools and technologies can help overcome the supervisory and risk management challenges of correspondent banking. In this regard, several authorities in surveyed jurisdictions support banks' use of tools that facilitate customer due diligence (CDD) procedures, such as know-your-customer (KYC) utilities, the Wolfsberg Group's due diligence questionnaire and the incorporation of Legal Entity Identifier in payment messages. They also encourage the use of advanced technologies and innovation in bank risk management processes. At the same time, some authorities have adopted advanced technology in their supervisory processes to improve efficiency and tackle complex risks. By using innovative tools, including artificial intelligence, banks and supervisory authorities can sift data to identify suspicious activity and help mitigate ML/TF/PF risks and counter the decline in correspondent banking relationships.

Section 1 – Introduction

1. **Correspondent banking is the provision of banking services by a bank to another bank.** In a typical correspondent banking relationship, the correspondent bank in one jurisdiction holds deposits on behalf of a respondent bank in another jurisdiction, providing it with payment and other services. Respondent banks generally receive a wide range of services, including cash management, loans and letters of credit, international electronic fund transfers and foreign exchange services.²

2. **International payments are still cleared and settled mainly through correspondent banks.** Although the cross-border payment market is evolving rapidly, the share of alternative channels in the value of cross-border payments is still small.³ While this scenario for alternative channels could change quickly due to emerging technologies and innovations, correspondent banking continues to play a critical role in the global economy at present.

3. **Correspondent banking is essential to international finance and commerce.** Correspondent relationships allow banks to process cross-border trade, investments and payments without maintaining a branch network in other jurisdictions. In principle, such arrangements can provide a flexible and regulated platform, capable of supporting international financial activity worldwide. Correspondent banking facilitates cross-border trade and investment, also connecting emerging market economies (EMEs) to the major financial centres. This smooths the flow of remittances and humanitarian aid, thus underpinning international integration and financial inclusion. Ultimately, correspondent relationships expand access to the global financial system by extending the reach of the banking network.

4. **Correspondent banking arrangements may be structured in various ways.** Currently, the main correspondent banking models are the following:

- Traditional correspondent banking: the correspondent bank opens and maintains an account for a respondent bank and handles its payments. This allows the respondent bank to provide equivalent services to its own customers. However, the customers of the respondent bank do not have direct access to the correspondent banking account.
- Nested correspondent banking: a bank's correspondent relationship is used by a number of indirect respondent banks (ie nested banks) through their relationships with the bank's direct respondent bank to conduct transactions and obtain access to other financial services. Nested banks do not have the direct relationship with the correspondent bank and they indirectly access financial services in the target jurisdiction through their direct respondent's account with the ultimate correspondent. The arrangement differs from the traditional one in that there is an additional bank mediating between the nested banks and the correspondent bank.
- Payable-through or pass-through accounts: in such arrangements, the correspondent banking account of the respondent bank is accessible to its customers and they can directly conduct their transactions through this account by making deposits and writing cheques on the account.

5. **Typically, a correspondent bank has only limited information about the respondent bank's customers and the nature of their transactions.** Correspondent banks rely mainly on their understanding of the respondent banks' AML/CFT/CPF programme, including measures and arrangements for KYC, CDD and ongoing monitoring of their transactions. This reliance may increase the correspondent bank's exposure to the ML, TF and PF risks associated with the respondent banking relationship. These

² The bilateral agreement between the correspondent bank and the respondent bank for the provision of services on an ongoing basis is an essential element of correspondent banking relationships. Accordingly, one-off transactions or the exchange of SWIFT Relationship Management Application keys (RMA) in the context of a non-customer relationship are not considered as correspondent banking.

³ See Bech and Hancock (2020) for further details.

risks may be especially complex in arrangements where correspondent banks offer greater access and flexibility to respondent banks and their customers, for instance, as in the case of payable-through/pass through accounts.

6. Correspondent banking has become more concentrated, with potential negative implications for AML/CFT/CPF, financial inclusion and economic prosperity. The number of active correspondent banking relationships across the world declined by around one fifth from 2011 to 2019. At the same time, both the value and volume of international banking transactions appear to have increased, suggesting a rise in concentration of the correspondent banking networks.⁴ This decline in relationships and the resulting increased concentration of business may promote economies of scale and the provision of services in a sustainable manner. However, a significant decline in active relationships leading to increased concentration could have implications for key policy objectives such as promoting competition, market-wide efficiency and financial stability. Where correspondent banking services have been altogether withdrawn or restricted for entire customer segments, the resulting lack of access to correspondent banking services poses a threat to trade, investment and remittance flows that could hamper economic growth. At the same time, the exclusion of customers from the regulated financial system may increase ML/TF/PF risks by driving activity into unregulated and non-transparent channels.

7. Several factors may be driving the decline in active correspondent banking relationships. The leading considerations that banks apply to their correspondent banking relationships are profitability, business strategy, operational costs, ML/TF/PF concerns, prudential and other regulatory requirements, and reputational risk.⁵ In some jurisdictions and geographical regions, the correspondent banking business may also be influenced by idiosyncratic factors such as capital and trade controls, economic sluggishness, financial sector factors, sanctions, data protection and privacy considerations or geopolitical reasons.⁶ Furthermore, the decline seems to have had a greater impact on smaller economies and jurisdictions with low transparency scores and those identified by FATF as deficient in their AML/CFT/CPF frameworks. In addition, unclear regulatory expectations in the past may have made it more difficult for correspondent banks to judge whether they are in compliance with regulatory requirements. This lack of clarity was particularly relevant in the case of requirements on correspondent banks' knowledge of their respondent banks' customers – the so-called Know Your Customer's Customer (KYCC).^{7, 8}

8. The international community has moved to assess and address the decline in correspondent banking relationships. Under the auspices of the Financial Stability Board's four-point action plan,⁹ the Financial Action Task Force (FATF), the Basel Committee on Banking Supervision (BCBS), the Committee on Payments and Market Infrastructures (CPMI), the World Bank Group, the International Monetary Fund (IMF), the Legal Entity Identifier Regulatory Oversight Committee (LEI ROC) and other bodies have identified drivers and taken action to mitigate de-risking. Such measures include further examining the dimensions of the decline and implications for financial inclusion and financial stability; clarifying regulatory expectations, including additional guidance from the FATF; supporting domestic capacity-building in jurisdictions that are home to affected respondent banks; and strengthening tools for due diligence for use by correspondent banks. The FATF (2016) and the BCBS (2017) have issued guidelines

⁴ See CPMI (2020) for further details.

⁵ See World Bank (2015) for further information

⁶ CPMI (2016) discusses a number of idiosyncratic factors which could have a bearing on correspondent banking.

⁷ See Boar et al (2020) for more on the drivers for the retreat of correspondent banking.

⁸ The FATF (2016) guidance on correspondent banking notes that the international standards do not require financial institutions to conduct due diligence on customers of their customers. However, in correspondent banking relationships, the correspondent bank will monitor the respondent bank's transactions to identify, among other concerns, suspicious activity. In practice, where concerns are identified, the correspondent bank will follow up by requesting additional information specific to a particular transaction.

⁹ See FSB (2015) for further information.

that, inter alia, clarify that correspondent financial institutions are not required to conduct KYCC in the normal course of business. They have also clarified expectations about key aspects of AML/CFT/CPF regimes, including high-risk relationships (eg payable-through accounts and nested relationships). Furthermore, the IMF, in partnership with the FSB and regional bodies, has conducted several roundtables to bring together correspondents, respondents and regulators. Finally, the FSB has been coordinating work with the aim of streamlining cross-border payments.

9. **The effectiveness of international measures depends largely on how they are applied by national supervisors.** This paper assesses supervisory practices relating to correspondent banking activities. In view of the decline in correspondent banking relationships, a particular focus lies on practices that strengthen the supervisory framework and also help in addressing de-risking by facilitating the flow of correspondent banking services. To that end, 10 supervisory authorities with AML/CFT/CPF mandates were surveyed for this paper.¹⁰ These were selected taking into account both geographical diversity and the importance of correspondent banking services in their jurisdiction. Publicly available information such as FATF mutual evaluation reports, published details of enforcement actions and reports by standard setting bodies were also used as input.

10. **The remainder of this paper is structured as follows.** Section 2 outlines the national AML/CFT/CPF regulatory frameworks including specific requirements related to correspondent banking. Section 3 presents the supervisory practices that are used to address the ML/TF/PF risks in correspondent banking. Section 4 discusses the key features of remedial measures and enforcement actions applied to address regulatory concerns and breaches in correspondent banking, while Section 5 explores approaches to ensuring effective cross-border cooperation and information-sharing. Section 6 concludes.

Section 2 – National AML/CFT/CPF regulation in correspondent banking

11. **Regulation of correspondent banking is embedded within the broader AML/CFT/CPF framework in all surveyed jurisdictions.** Such frameworks consist of primary legislation complemented by ordinances, regulations and guidelines issued by different authorities. While the surveyed jurisdictions differ with regard to the nature and extent of such regulation, they all apply general AML/CFT/CPF standards and requirements to correspondent banking relationships.

12. **All the surveyed jurisdictions regulate correspondent banking relationships by imposing specific risk-mitigating requirements on correspondent banks, in keeping with international standards.** These include obligations to carry out due diligence on their respondents, to assess their AML/CFT/CPF policies and procedures and to establish correspondent banking relationships on the basis of documented agreements approved by senior management. In addition, all surveyed jurisdictions prohibit the provision of correspondent banking services to shell banks, although the application of these prohibitions differs slightly across jurisdictions.^{11, 12} Most surveyed jurisdictions have specific regulations

¹⁰ Australian Transaction Reports and Analysis Centre (AUSTRAC), Cayman Islands Monetary Authority (CIMA), Central Bank of Kenya (CBK), Central Bank of Nigeria (CBN), Central Bank of the United Arab Emirates (CBUAE), France Prudential Supervision and Resolution Authority (ACPR), Hong Kong Monetary Authority (HKMA), Superintendency of Banks of Panama (SBP), the United Kingdom Financial Conduct Authority (FCA) and the United States Federal Banking Agencies (US FBA).

¹¹ Shell bank means a bank that has no physical presence in the country in which it is incorporated and licensed, and which is unaffiliated with a regulated financial group that is subject to effective consolidated supervision.

¹² Some jurisdictions require correspondents to take measures to ensure that their services cannot be used by shell banks, while others specifically prohibit entering into correspondent banking relationships with shell banks and require that correspondents terminate a relationship if they become aware that the respondent is a shell bank. In addition to such requirements, CIMA requires correspondents to ensure that their respondents do not offer services to shell banks, thereby extending due diligence by a correspondent to the level of the respondent's customer.

on high-risk arrangements such as payable-through accounts and require enhanced due diligence by the correspondent to address the underlying risks of such arrangements.

13. **Most surveyed jurisdictions have acted to incorporate recent FATF and BCBS guidance into their legal and regulatory frameworks.** Some surveyed jurisdictions have incorporated FATF and BCBS guidance in their regulation, while in others, authorities have issued statements referring supervised firms to this guidance, as changes to existing regulation were not deemed necessary. Most jurisdictions focused their updates on measures related to shell banks, payable-through accounts, the role of senior management of correspondent banks and the need for ongoing due diligence with regard to respondents.

14. **Regulatory measures applied to address increased de-risking by correspondents differ across jurisdictions.** All surveyed jurisdictions, by virtue of reference to FATF and BCBS guidelines, have clarified that correspondents are not required to perform due diligence on the customers of respondents (no KYCC requirement) and have issued guidelines or best practices to that effect. In addition, some jurisdictions seek to address increased de-risking by imposing risk-sensitive regulatory requirements on the decision to maintain clients. In France, for example, recent regulation specifies that correspondents should consider corrective actions taken by respondent banks in response to enforcement actions when assessing their reputation.

Box 1

Recent AML legislation in Australia

Australia recently undertook a review of its AML/CFT/CPF framework. As one outcome, the Anti-Money Laundering and Counter-Terrorism Financing and Other Legislation Amendment Bill 2019 is currently being considered by Parliament. The bill contains a range of AML/CFT/CPF measures that include regulation on correspondent banking which is explicitly based on the FATF standards. Among other things, the legislation will:

- prohibit financial institutions from entering into a correspondent banking relationship with another financial institution that permits its accounts to be used by a shell bank;
- require banks to conduct due diligence assessments before entering, and during, all correspondent banking relationships.

Source: Parliament of Australia (2019).

Section 3 – Supervisory practices

Structure of supervision of correspondent banking and the risk-based approach

15. **In all surveyed jurisdictions, correspondent banking supervision is part of the broader AML/CFT/CPF supervision.** In line with the local circumstances, the supervision of control programmes that banks employ to mitigate ML/TF/PF risk in their correspondent banking activity is covered along with other activities by the respective supervisory units. However, correspondent banking activity is tracked and assessed through various supervisory tools including procedural manuals, scorecards and assessment tools and regulatory rating systems.

16. **Frameworks for the supervision of correspondent banking are based on the RBA, but actual implementation of this approach varies.** Survey results and interviews indicate that, in principle, authorities have adopted the RBA in line with the FATF recommendations in their supervisory frameworks, as this approach makes for more efficient use of scarce supervisory resources as well as better supervisory

outcomes by focusing on the high-risk areas. Survey responses also revealed a consensus about the principles and benefits of RBA, finding that legal frameworks in these regimes are generally consistent with it. Authorities require that financial institutions themselves take a risk-based approach to assessing and mitigating risks, including with respect to correspondent banking. The technical frameworks for supervisory processes assess the effectiveness of banks' control programmes and compliance with regulatory expectations and obligations by employing the supervisory resources in a risk-sensitive manner. However, actual implementation of the RBA in line with technical frameworks is uneven globally.

17. **Several jurisdictions calibrate the intensity of supervision according to a firm's risk profile and the significance of its activities.** The surveyed authorities typically assess the risk profile of a bank by the nature and characteristics of its customers, geographies, products and modes of providing services and the assessed quality of its AML/CFT/CPF control and procedures.¹³ As for the significance of its activities, supervisors consider various factors. In Kenya, authorities use a risk evaluation model that includes qualitative factors, such as the legal structure and geographic location of the bank's clients, the quality of management, and regulatory compliance and sanctions history, as well as quantitative factors such as the breakdown of types of client segment by nationality and geographic location. However, a wider review of supervisory practices, especially through mutual evaluation reports, suggests that the connection between risk and supervisory intensity is not in evidence for some jurisdictions and more remains to be done to implement this pillar of the RBA.

18. **The national risk assessment (NRA) and other processes are important in identifying and assessing ML/TF/PF risks at a macro level and in developing a detailed understanding of the risks involved in correspondent banking.** The NRAs of some of the surveyed jurisdictions specifically assess the system-wide risks of correspondent banking, although not all jurisdictions have done this and the quality, relevance, frequency and extent of coverage vary according to the underlying risks and supervisory capacity. To augment the risk assessment, some jurisdictions also conduct sectoral assessments and thematic reviews of correspondent banking to assess the effectiveness of control programmes for specific aspects of correspondent banking activity and analyse emerging issues. Findings are shared with market participants to help them build and improve their risk management frameworks and strengthen their compliance with regulatory requirements.

¹³ The ACPR, for instance, uses the size of balance sheet along with a number of other factors to determine the significance of a bank's activities.

France's sectoral risk assessment of correspondent banking

As part of its ML/TF/PF risk assessment, France conducted a sectoral analysis on correspondent banking in 2019. This assessment relied, inter alia, on a horizontal review of all banks that provide correspondent banking services in France. One of the reasons for this review was the 2018 implementation of revised regulations on correspondent banking, together with the publication of new guidelines, reflecting international guidance on regulatory expectations that identifies correspondent banking as an area of high intrinsic risk. This horizontal review relied on a questionnaire and interviews, complementing the information on correspondent banking already available from the annual ACPR questionnaire on AML/CFT/CPF, as well as banks' annual reports on AML/CFT/CPF internal controls. The assessments also referred to recent onsite examinations of a number of correspondent banks.

The sectoral risk assessment highlighted the composition and dynamics of the correspondent banking business in France, outlining the nature and key drivers of the ML/TF/PF risks it faces. The 2019 survey identified a number of risk-mitigating tools used by banks, including the widespread use of the Wolfsberg questionnaire and the prohibition by most banks of payable-through accounts. The exercise also evaluated risk management practices including the frequency of audit cycles, the status of updates of correspondent banking contracts, KYC updates on respondents, the use of automated screening tools and how correspondent banking was reflected in banks' internal risk assessments. While improvements were considered necessary at some banks, overall the residual risks of correspondent banking in France were assessed to be low for relationships within the European Economic Area and moderate for relationships with other countries.

Key sources of information and tools for the supervision of correspondent banking

19. **Authorities use a variety of sources and methods to collect relevant information for supervisory purposes.** Supervisors collect information on customers, geographies, products, services, key features of control programmes, and key risk indicators (eg high-risk correspondent banking relationships, suspicious activity reports, sanctions, screening process, large-value transactions, frauds and significant breaches). Moreover, they rely on banks' self-assessments of their risks and effectiveness of their control programmes, reports of independent experts and auditors, and information from other authorities and law enforcement agencies and market information.

20. **Supervisors use offsite surveillance and onsite inspections for specific aspects of AML/CFT/CPF supervision of correspondent banking activity.** Most authorities rely primarily on offsite processes to help them manage supervisory resources. Offsite surveillance is used to identify and assess risks in institutions and evaluate the quality of their AML/CFT/CPF controls to form a view on bank risk profiles and their dynamics. Onsite work is then selectively employed to verify and adjust the findings of offsite surveillance, precisely assess the effectiveness of AML/CFT/CPF programme and investigate specific issues. During onsite inspections, supervisors review a wide range of documents including policies and procedures, transaction monitoring systems and their rules and transaction reporting data.

21. **Some supervisors often rely on banks' self-reported data and self-assessments.** This includes self-assessment by banks of their ML/TF/PF risks and the effectiveness of their control programmes. These assessments are used to determine the intensity of supervision under the risk-based approach. Self-assessments appear to play a particularly important role in providing a detailed understanding of institutions' correspondent banking risk profile. While this approach takes advantage of the detailed knowledge banks possess, heavy reliance on their self-assessments without applying complementary tools such as onsite inspections and reviews of previous examination findings and audit reports may render the supervisory processes vulnerable to error or malfeasance and thus may need to be complemented with other supervisory activities.

22. **Processes and tools specifically tailored for correspondent banking are not always available.** Many jurisdictions employ processes specific to correspondent banking; the survey identified authorities that use special questionnaires and surveys to assess the dynamics and risk profile of correspondent activity.¹⁴ However, built-in tools such as specific examination metrics, targeted data collection and regulatory returns to recurrently monitor correspondent banking activity are sometimes lacking. Access to such tools, especially in jurisdictions where significant ML/TF/PF risks have been identified, is important to ensure effective compliance and supervision. While much of the supervisory assessment on correspondent banking activity may be covered in the general procedures of AML/CFT/CPF supervision and standard set of regulatory returns, supervisors could use tailored tools and supervisory mechanisms (eg bespoke and focused questionnaires and inspection reviews, benchmarking techniques and thematic reviews) to complement their evaluation of risks in correspondent banking relationships and activities.

23. **Authorities use a range of communications tools to further clarify supervisory expectations on customer due diligence expectations and risk management.** These are based on the FATF's and the BCBS's guidance and include the following:

- Official statements to clarify that financial institutions are expected to follow the RBA, and that KYCC is not expected as a matter of course within that framework.¹⁵
- Supervisory guidance that augments the regulatory standards by clarifying the supervisory philosophy and processes involved in AML/CFT/CPF supervision (eg FFIEC Bank Secrecy Act (BSA)/AML Examination Manual and HKMA Supervisory Policy Manuals).
- Supervisory findings and practical guidance about regulatory expectations in the form of typologies (eg Financial Crimes Enforcement Network (FinCEN)¹⁶ advisories), compendium of good and bad practices and case studies to explain how firms fall short of expectations (eg FCA Financial Crime Guide), findings of thematic reviews, deliberations in conferences and workshops, discussions at different forums and bilateral meetings with financial institutions.¹⁷

24. **Several authorities support innovative tools for CDD procedures that help banks comply with due diligence and risk management requirements and improve the policy framework.** In that regard, several authorities support innovative tools that facilitate CDD procedures. CDD utilities, for instance, can serve as repositories of readily available information on financial institutions and facilitate aspects of the CDD process.¹⁸ Similarly, the Wolfsberg Group's correspondent banking due diligence

¹⁴ The ACPR, for instance, conducted a special survey in 2019 on correspondent banking, which shows that the vast majority of the surveyed correspondent banks do not provide payable-through accounts to respondent banks. The responses to this survey also highlight that nested relationships are accepted but are seen as a source of risks by large banking groups and, when detected, they trigger an update of the CDD on the respondent bank.

¹⁵ See, for example, FCA (2016) and US Department of the Treasury and Federal Banking Agencies (2016).

¹⁶ The Financial Crimes Enforcement Network serves as the financial intelligence unit for the United States.

¹⁷ The private sector has also developed practical guidance to clarify regulatory expectations for financial institutions and help them develop effective AML/CFT/CPF control programmes. For example, the United Kingdom's Joint Money Laundering Steering Group (JMLSG), an association of financial institutions, has developed sets of guidelines to help financial institutions establish AML programmes. These guidelines have official endorsement, thus giving certainty to the market.

¹⁸ To support these tools, authorities have adopted or referred to the FATF and BCBS guidelines that prescribe minimum requirements and precautions for the use of these utilities. The ACPR and FCA, for example, refer to FATF and BCBS guidelines as a source that banks can consult for guidance on complying with regulatory expectations.

questionnaire (CBDDQ) provides financial institutions with a standard format to compile and share key information about themselves in a convenient and consistent manner.¹⁹

25. **Authorities stress the importance of more private sector investment in technology and human resources (HR).** Such investments can support both operational efficiency and improved risk management. Operational costs, frictions and information asymmetries, including problems in information-sharing, have contributed to the closure of correspondent relationships and many authorities believe deeper investment in technology and capacity could help address these problems. Some supervisors reported that, while financial institutions have shown an interest in enhancing their use of technology and building staff capabilities to assess and mitigate risks, there is still room for improvement. In this regard, a cultural shift might be needed in financial institutions for them to appreciate that investments in technology and HR can optimise the risk-return matrix by mitigating ML/TF/PF risk more efficiently, thus bolstering their competitiveness in correspondent banking. To facilitate the safe and systematic adoption of technology, some authorities have issued guidance to address concerns about the regulatory response to innovation.

¹⁹ The Wolfsberg Group is an association of 13 global banks that seeks to develop frameworks and guidance for the management of financial crime risks. The group introduced CBDDQ in 2004 to help financial institutions in conducting CDD. The questionnaire served as a preliminary source of minimum data that financial institutions could use to carry out an individual risk assessment process. In view of the changes in the regulatory standards and business dynamics, the questionnaire was updated in 2017. The current version of the CBDDQ establishes a data standard that correspondent banks can use for risk analysis to complement their due diligence processes.

US Authorities' Joint Statement Encouraging Innovative Industry Approaches to AML Compliance

The US Treasury and the Federal Banking Agencies issued a joint statement in December 2018 to encourage innovation in the approaches that the financial industry may use to improve compliance with AML obligations. The authorities recognise that private sector innovation, including new ways of using existing tools or adopting new technologies, can help banks identify and report ML, TF, PF and other illicit financial activity by enhancing the effectiveness and efficiency of compliance programmes. Accordingly, the joint statement encourages banks to consider, evaluate and, where appropriate, responsibly implement innovative approaches in the area of AML/CFT/CPF.

In order to address any uncertainty about the supervisory response on innovation and use of technology, the joint statement clarifies that:

- Pilot projects run by the banks to introduce innovation for the improvement of their control mechanism for AML and Bank Secrecy Act purposes per se will not expose banks to supervisory criticism, even if the project ultimately fails. The supervisor may, however, give feedback on the effectiveness of the project.
- If a pilot project identifies any gaps in the existing BSA/AML programme, the programme will not necessarily be subject to regulatory action. The authorities will assess the programme independent of the results of the pilot project.
- Implementation of an innovative approach will not result in additional regulatory expectations.

The statement also provides guidance that:

- when developing pilot programmes and other innovative approaches, banks should meet their BSA/AML compliance obligations and ensure the bank's ongoing safety and soundness.
- bank management should prudently evaluate whether, and at what point, innovative approaches may be considered sufficiently developed to replace or augment existing BSA/AML processes.
- when deciding to adopt an innovative approach, bank management should also consider and address other factors including information security issues, third-party risk management, and compliance with other applicable laws and regulations.

In the joint statement, the authorities commit themselves to continued engagement with the private sector to facilitate innovation in BSA/AML compliance by providing guidance and clarification on regulatory expectations, encouraging responsible innovation and affording due regulatory support for testing and potential use of innovation and new technology.

Strategies to enhance supervisory consistency and capacity

26. **Several surveyed authorities acknowledge that a key challenge of the RBA is to achieve consistency in expectations and supervisory outcomes.** This challenge is particularly acute in the supervision of correspondent banking, as it involves principles-based regulation when setting regulatory expectations. The implementation of enhanced measures in a risk-sensitive manner requires the extensive use of judgment on the part of banks and authorities when considering risks and mitigation programmes.

27. **Standardised processes and procedures, detailed supervisory manuals and close alignment with international standards seem to be the common elements used by the authorities to ensure consistency in their supervisory outcomes.** The ACPR, for example, makes use of a structured rating system for the ML/TF/PF risk assessment, which is supported by an application that ensures a detailed audit trail of the assessment process. The same authority has developed a comprehensive onsite inspection manual, which includes a section on the supervision of correspondent banking activities with guidance on

the supervision of nested relationships and payable-through accounts. The US Federal Banking Agencies (FBAs) have also published their examination manual, which includes a section on correspondent banking.

28. **Most supervisory processes include a review stage to ensure a minimum level of quality and consistency in supervisory findings and outcomes.** The US FBAs, for example, perform quality control reviews of examination findings and reports before communicating them to banks. Likewise, the FCA has defined sign-off processes and challenge sessions built into the supervisory programmes of work to verify supervisory judgments. In addition, the output of the quality assurance process is reviewed at department and divisional level. CIMA's risk review and validation process includes a panel to ensure that the risk framework is applied consistently and to challenge the conclusions of individual analysts where necessary.

29. **Some authorities have established mechanisms to disseminate sound practices among supervisory staff.** In AUSTRAC, for example, supervision teams regularly discuss the progress of assessments of financial institutions and the similarities and differences in the control frameworks. Similarly, CBUAE holds quarterly meetings involving members of different supervision teams to share information, promote supervisory consistency and ensure the adoption of sound practices. During these meetings, supervisors discuss key trends and critical observations identified during onsite and offsite examinations, which enhances quality as well as consistency in the application of AML/CFT/CPF requirements. US FBAs are members of the Federal Financial Institution Examination Council (FFIEC), which meets regularly to share information and supervisory best practices. Among its many functions, the FFIEC organises examiner training and publishes the AML examinational manual used by all FBA examiners to ensure the consistent application of supervisory policies, procedures and practices.

30. **Capacity-building is a core component of the strategy to ensure quality and consistency in the supervisory outcomes across the board.** Surveyed authorities develop their staff in a variety of ways. These include on-the-job training, staff secondments to other examination teams or financial crime-focused units, and the pursuit of internationally recognised certifications and memberships.

31. **Innovation can help overcome supervisory resource constraints.** Advanced technology can help supervisors to cover a large number of firms cost-effectively and improve their coverage of complex risks (eg structured ML/TF/PF techniques and trade-based ML in correspondent banking), which are more difficult to address through conventional methodologies. Supervisors thus stand to benefit from novel technology-based techniques such as behavioural assessments, artificial intelligence and big data.²⁰ National authorities believe that technologies such as the automated collection and sharing of information, machine learning and artificial intelligence in the fields of regtech and suptech²¹ can greatly help in the effective supervision of high-risk activities, including correspondent banking. It is important for supervisory authorities that technologies are adopted in a systematic manner, so that supervisory practices keep pace with banks' operations. For this purpose, some authorities, such as the FCA, have formulated long-term strategies covering both their vision for the adoption of innovative technologies and their plans to realise that vision.²²

²⁰ See CPMI and WBG (2020).

²¹ According to FSB (2017), the term regtech refers to any range of applications of fintech for regulatory and compliance requirements and reporting by regulated financial institutions. This can also refer to firms that offer such applications. Broeders and Prenio (2018) define suptech as the use of innovative technology by supervisory agencies to support supervision. It includes advanced data collection and analytics tools used by the authorities to digitise reporting and supervisory processes, resulting in more efficient and proactive monitoring of risk and compliance at financial institutions.

²² On the topic of suptech applications for anti-money laundering, see Coelho et al (2019).

32. **Supervisory authorities are helping to build the capacity of respondent banks and to support their home supervisors.** Some supervisors of correspondent banks offer support to the supervisory authorities of the jurisdictions that receive correspondent banking services so that supervisors of respondent banks can meet the regulatory requirements applicable to correspondent banks. This support can be in the form of direct technical assistance to develop and improve the AML/CFT/CPF regimes in respondent jurisdictions, discussion and consultations, and outreach programmes to clarify the regulatory requirements, supervisory expectations, and actions required if correspondent banking relationships are to be maintained.²³ In this regard, cooperation with international agencies dedicated to providing technical assistance for strengthening of AML/CFT/CPF frameworks could particularly enhance the outcomes by fostering expertise and resources.²⁴ Increased capacity at respondent banks ultimately makes the maintenance of correspondent relationships more feasible.

²³ The ACPR, for example has taken initiatives under the regional cooperation forum of central and western African nations to help member countries enhance the compliance of their AML/CFT/CPF regimes with FATF standards and meet the regulatory requirements of correspondent banks.

²⁴ The IMF, World Bank Group and Asian Development Bank take a keen interest in building capacity and providing resources and expertise to improve AML/CFT/CPF systems

UK data strategy for promotion of innovation in AML/CFT/CPF compliance

The FCA's strategic plan for promoting innovation and advancement of technology is embodied in its Data Strategy. Developed in 2013, the strategy initially focused on the collection and management of data and was revised in January 2020 with a view to using recently developed technical capabilities. The new five-year data strategy explains the rationale for the FCA's strategy and key objectives, sets the expected outcomes and provides action plans for the next five years. The data strategy is expected to improve the FCA's ability to understand and monitor the correspondent banking activities within its remit.

The FCA's objective is to effectively respond to how firms use new technology, data and analysis, and to explore how to apply these innovations with a view to raising its own efficiency and easing the burden on financial firms. The aims of the strategy are to:

- Review historical data to assess risks and breaches and learn lessons for the future;
- Improve the use of technology to better understand risks and manage them more swiftly;
- Enhance the use of predictive analytics to detect patterns and trends across firms, business models and industry, and to proactively respond to risks and hazards;
- Improve analytics capabilities to support the FCA's decision-making; and
- Strengthen data-sharing across the authority and streamline work processes.

The data strategy will be delivered via coordinated work across all data-related projects and activities, covering the following areas:

- Projects and key business initiatives in every division to exploit technical capabilities and improve ways of working;
- Cultural changes to and improved skills to provide the environment, training and recognition for contributions to fully exploiting the data and improvements in work processes;
- A new FCA data operating model that provides central capabilities and services to push forward transformation, while growing data and analytical capability;
- Improved central data services to support governance, control and supply of data and facilitate better use of them by providing support across a range of disciplines;
- New data management and analytical tools to provide control, flexibility and power in the use of data; and
- Technology platforms that provide the infrastructure to fully harness the power of data.

Source: FCA (2020).

Section 4 – Enforcement actions

33. **Authorities have flexibility in legal frameworks to apply a range of enforcement actions in response to AML/CFT/CPF violations.** Survey respondents were generally able to identify specific provisions in law or regulation allowing them to use a broad range of remedial actions in response to AML/CFT/CPF failures. The flexibility of these frameworks reflects the requirements of FATF standards that

the authorities should apply sanctions which are proportionate, dissuasive and effective. The flexibility in remedial action also suggests that the FATF expectation that jurisdictions should not take a “zero-failure” approach towards isolated AML/CFT/CPF compliance failures is generally understood. Authorities are expected to have a sufficient range of sanctions available that can be applied proportionately to greater or lesser breaches of supervisory requirements. Sanctions typically include written warnings, orders to comply with specific instructions, ordering regular reports from the institution on the measures it is taking, fines for non-compliance, barring individuals from employment within the financial sector, removing, replacing or restricting the powers of managers, directors, and controlling owners, imposing conservatorship or suspension or withdrawal of the license, or criminal penalties where permitted.

34. **The proportionality principle implies that authorities will use the full range of possible sanctions when taking enforcement action, but this does not always happen in practice.** The FATF standards emphasise that sanctions imposed should be commensurate with the nature and severity of violations. The jurisdictions accordingly recognise that the most robust enforcement actions should be reserved for breaches which are wilful, repeated or egregious. The range of sanctions available is broad enough to be applied proportionately to greater or lesser breaches of supervisory requirements. Some jurisdictions have indeed handed down large, apparently dissuasive fines and other enforcement actions in cases of AML/CFT/CPF breaches related to correspondent banking. However, a wider review of supervisory practices suggests that the full range of remedies available to jurisdictions to address serious misconduct does not appear to be used as might be warranted. Jurisdictions could consider consistently taking strong, decisive and targeted enforcement action in the egregious cases that warrant them.

35. **Willingness to use robust sanctions for serious cases, coupled with adequate public disclosure, could strengthen the correspondent network, whether or not jurisdictions host mainly correspondent or respondent banks.** As the global correspondent system is a network, its risks are difficult to wall off between jurisdictions. For respondent banks, besides mitigating their ML/TF/PF risks, robust action taken by their supervisors in egregious ML/TF/PF cases may help to demonstrate to potential correspondents that the respondents operate within a system of effective supervision. This can help allay the concerns of correspondent banks and their supervisors, who might otherwise have incentives to de-risk entire customer segments in response to perceived risks anywhere. For correspondent banks, consistent and targeted enforcement action that is commensurate with the circumstances of the case and appropriately communicated can help prevent blanket and generalised de-risking decisions by other market participants. A consistent and proportionate approach in applying risk-sensitive and transparent enforcement actions can thus play an important part in maintaining the integrity of the correspondent network while also addressing the issue of unwarranted de-risking.

36. **Some jurisdictions apply AML/CFT/CPF enforcement actions to both banks and individuals while others apply them only to banks.** The FATF standards require that sanctions be applicable to both legal and natural persons, so as to alter the behaviour of those who are the subject of supervisory actions, deter non-compliance by others and eliminate any financial benefit or incentive from non-compliance. The survey and wider review of supervisory practices as covered in mutual evaluation reviews (MER) show that, some jurisdictions may apply penalties or disqualifications specifically to natural persons, which allows even greater flexibility for enforcement agencies and could provide a more effective deterrent in some instances than dealing only with legal persons. For instance, Nigeria’s regulatory framework allows implicated bank officers to be made personally liable.

37. **Most jurisdictions agree that sanctions should carry a message for the public, but only some of them make sanctions public in enough detail to accomplish this goal.** As a general matter, countries are very consistent in citing the need for enforcement actions to show the industry and their counterparts what regulators expect and how they apply sanctions to specific cases. The consensus is that enforcement actions should be disclosed publicly, as a deterrent in support of market discipline. As such,

some jurisdictions provide extensive detail on the underlying conduct they have penalised.²⁵ Several jurisdictions have also published guides to the enforcement process or specific guidance for individual sectors.²⁶ Making enforcement actions public is, however, not a tool that is universally practised by, or available to, all authorities.

Box 5

Joint actions by the UK and US authorities

In 2012, the US and UK authorities took coordinated actions to penalise an internationally active bank for a variety of failures related to correspondent banking and targeted financial sanctions compliance. The bank paid a total of over USD 1.9 billion in forfeited funds and civil monetary penalties to US law enforcement and civil enforcement agencies, and also entered into a deferred prosecution agreement with the US Department of Justice, in which it promised to institute major changes to its AML/CFT/CPF compliance programmes. According to court documents, the bank was accused of failing to maintain an effective AML programme and to conduct appropriate due diligence on its foreign correspondent account holders, illegally conducting transactions on behalf of customers in countries that were subject to sanctions enforced by the Office of Foreign Assets Control (OFAC) at the time of the transactions.

The UK authorities followed by imposing enhanced compliance conditions on the bank in December 2012. These included the establishment of a committee of the bank's board to oversee matters relating to financial crime, and a review of all group-level policies and procedures to ensure the bank had equivalent standards under the UK requirements, as well as the appointment of a group money laundering reporting officer and an independent monitor to oversee the enhancement programme.

In 2019, a different global correspondent bank agreed to a combined USD 1.1 billion fine in a joint action by the US, UK, and New York state regulators. The action related to correspondent banking failures and sanctions violations. As part of this action, in February 2019, the FCA published a decision notice and assessed a fine of over GBP 100 million. Had the bank not contested the decision, the fine would have been more than GBP 145 million.

In its decision notice, the FCA identified failures in due diligence and monitoring related to correspondent banking, which persisted even after the FCA warned the bank of the need for improvement. The notice highlights inadequate understanding of the AML controls at respondents and even instances where no meaningful due diligence was done on a respondent. In ongoing monitoring, the FCA noted failures to properly apply periodic reviews of customer risk profiles and reviews that should have been triggered by specific events. The decision notice also underlines the FCA's opinion that the failures were considered particularly serious since the United Kingdom is the bank's home jurisdiction, setting policy for the group's operations worldwide.

The US federal regulators and New York state authorities similarly identified failures in detailed public materials including gaps in payment controls, inadequate customer due diligence, lack of leadership at the group level in sanctions and compliance, and lack of oversight at a foreign branch used to process correspondent transactions. These failings were discussed in detail in consent orders and press releases and led to significant fines. In addition to the FCA fine, the United States Office of Foreign Asset Controls fined the bank USD 639 million and the New York Department of Financial Services imposed a fine of USD 463.4 million.

Section 5 – Cross-border cooperation and information-sharing

38. Authorities recognise the importance of enhanced cooperation and information-sharing to improve supervisory capacity. This is seen as a potential avenue for better supervision of correspondent

²⁵ In the United States, for example, public information on enforcement actions usually provides extensive detail and includes legal documents such as deferred prosecution agreements and consent orders.

²⁶ Australia, for instance, has posted clear guidelines on such aspects as its philosophical approach to regulation and the consequences of non-compliance. See AUSTRAC (2019b,c).

banking and an area in need of improvement. In particular, authorities believe that better cross-border cooperation would help to mitigate risks to the financial system and support financial inclusion. As specified in the FATF standards, supervisory authorities should be able to request assistance from foreign supervisors in conducting an investigation, examination or enforcement action. Likewise, AML supervisory authorities should have the powers to provide assistance at the request of a foreign banking supervisor to the extent that certain conditions are met. Similarly, relevant information that can help to protect the financial system against ML/TF/PF should be exchanged between authorities as well as between correspondent and respondent banks.

39. **All surveyed authorities have legal powers to provide information to a foreign banking supervisor, typically on a confidential and reciprocal basis.** The legal frameworks of most authorities require supervisory authorities to ensure that the recipient authority is able to protect the confidentiality of the information received and control its use. In addition, supervisors providing the information should be satisfied that the information will be used only for the purpose for which it is communicated to the foreign supervisory authority. Another common requirement is that the recipient agency has functions in relation to the prevention or detection of financial crime and that the information is relevant in order for this authority to be able to discharge its functions. The range of information exchanged generally includes information on the financial institution's activities, beneficial owners, risk-management practices and internal controls. It also encompasses CDD information and information related to accounts and transactions.

40. **Surveyed authorities have put in place supporting institutional arrangements to ensure effective sharing of information and other forms of cross-border cooperation.** All surveyed authorities institute bilateral or multilateral memoranda of understanding (MoUs) setting out the framework for how information will be exchanged with foreign supervisors. MoUs also frequently specify the conditions for overseas extensions of onsite inspections, thus allowing supervisors to better understand cross-border risks and the vulnerabilities of internationally active banks. Further, AML supervisors regularly share information with their foreign counterparts by participating in supervisory colleges. These forums typically rely on confidentiality arrangements to facilitate information-sharing.

41. **Authorities emphasise the importance of effective information-sharing between correspondent and respondent banks for an effective AML/CFT/CPF framework.** In line with FATF standards, authorities require financial institutions to perform CDD measures in relation to their cross-border correspondent banking counterparties. In addition, with respect to payable-through accounts, correspondent banks should be satisfied that the respondent bank has conducted CDD on customers with direct access to the correspondent bank's accounts, and that the respondent can provide relevant CDD and transaction-specific information upon request to the correspondent bank.²⁷ Moreover, supervisory authorities require the correspondent banks to impose restriction or limitations on their services or even relinquish the correspondent banking relationships where adequate risk management cannot be exercised due to non-availability of information. In practice, information-sharing between correspondents and respondents still poses a problem that, in some instances, can lead to the loss of relationships. Failure to respond to information requests related to CDD or transactional activity is a common reason for global correspondents to terminate respondent customer relationships. In contrast, regular and thorough communication between respondents and correspondents builds trust and mitigates the risk of abrupt terminations.

42. **Information-sharing across jurisdictions is subject to compliance with data privacy and protection legislation and other constraints.** These constraints sometimes raise challenges in the exchange of information. Although the general provisions for data privacy and protection normally apply

²⁷ See Recommendation 13 in FATF (2019) for more information.

to the sharing of information across jurisdictions and between banks, the legal framework typically provides exemptions to the extent that specific conditions are met.²⁸ In other cases, data localisation and data privacy or confidentiality requirements may stand in the way of appropriate information-sharing for AML/CFT/CPF purposes. Such restrictions highlight the need for authorities to collaborate, review and balance the objectives of data privacy vis-à-vis financial transparency or to identify or establish appropriate legal gateways.

43. **Effective two-way communication of national risk assessment views between AML authorities and financial institutions is a prerequisite for information-sharing on risks and implementing the RBA.** The FATF standards stipulate that authorities should communicate their assessment of country risks to financial institutions and other relevant parties. By doing so, they encourage financial institutions to adopt enhanced measures to manage and mitigate these risks. Furthermore, this information is incorporated into risk assessments carried out by financial institutions in order to manage and mitigate risks appropriately and used by supervisors to develop supervisory strategies and plan examinations.²⁹ Similarly, the views of financial institutions can provide a valuable input for national authorities in making their risk assessments. This two-way dialogue on risk can significantly enhance the effectiveness of the AML/CFT/CPF framework.³⁰

Box 6

HKMA's approach to information exchange with private sector stakeholders

The Hong Kong Money Laundering and Terrorist Financing Risk Assessment Report published in 2018 incorporates views developed through information exchange between the public and private sector stakeholders involved in correspondent banking. The HKMA used two industry consultative meetings, comprising 20 banks, as well as written questionnaires to solicit the private sector's views, all of which informed Hong Kong SAR's risk assessment. The final report includes five areas for further action, one pillar of which is to strengthen the partnership with the banking sector through engagement and guidance to enhance understanding and mitigation of risks. In this connection, the HKMA held a series of seminars and published circulars to set out the conclusions of the risk assessment and give guidance on how banks should reflect it in their own risk assessment processes. Hong Kong's published version gives a detailed view of the authorities' risk assessment and discusses correspondent banking risks to explain Hong Kong's assessment to both domestic and international audiences, whether public authorities or the private sector.

Source: Hong Kong Financial Services and the Treasury Bureau (2018).

44. **Supervisory authorities use different forums to promote information-sharing and cooperation among public and private sector entities.** In 2017, AUSTRAC developed the Community of Practice as a forum for information exchange and the development of professional working relationships between large reporting entities and AUSTRAC. In that same year, the Fintel Alliance was also set up in Australia for public and private sector entities that share and analyse financial intelligence. Similarly, the FCA is closely engaged with the Joint Money Laundering Intelligence Task Force (JMLIT), which brings together financial institutions, law enforcement and police agencies from across the United Kingdom to exchange and analyse information relating to money laundering, including information relating to correspondent banking. Another example is Hong Kong SAR's Fraud and Money Laundering Intelligence Task Force (FMLIT), an information exchange and cooperation mechanism that combines public and private sector stakeholders. The United States has established a consultative body on its AML/CFT/CPF regime known as the Bank Secrecy Act Advisory Group, which holds regular public-private

²⁸ In Hong Kong, for example, the Personal Data Ordinance provides that personal data are exempt from data protection rules where the data are used for the prevention or detection of crime.

²⁹ See INR 1 FATF (2019) for more information.

³⁰ In this regard, Panama published a red flag advisory for use by the private sector in 2015, including specific typologies related to correspondent banking. See SBP (2015) for further details.

meetings to discuss matters of common concern, as well other venues and mechanisms for public-private information-sharing and cooperation. The ACPR established a consultative AML/CFT/CPF commission in 2010, which includes representatives of the public and private sectors, and has contributed to the development and revision of correspondent banking guidelines.

45. **Most supervisory authorities cooperate with international agencies to assess the trends and dynamics of correspondent banking relationships and participate in the formulation of global strategies to tackle de-risking.** Some authorities also carry out detailed assessments of the nature and dynamics of international payment channels and correspondent banking relationships in their jurisdictions to inform their policy objectives on financial inclusion and the safety of the financial system. Some authorities have supported the diagnostic assessments carried out by international organisations and standard-setting bodies such as the IMF, World Bank and CPMI and participated in the formulation of global strategies, standards and guidelines by the FSB, FATF and BCBS. To better understand transactional corridors and the composition of correspondent banking business in their jurisdiction, some of the surveyed authorities have conducted detailed assessments. These findings are used to inform policy responses on financial inclusion, regional cooperation and AML/CFT/CPF supervision.³¹

Section 6 – Conclusion

46. **The supervisory authorities surveyed for this project displayed largely similar principles in their frameworks for the AML/CFT/CPF supervision of correspondent banking, but their practical implementation can be substantially different.** All supervisors apply the principles of the RBA and the surveyed jurisdictions have similar guidelines to integrating onsite and offsite supervision. Similarly, legal frameworks for enforcement in all surveyed jurisdictions are broadly consistent with international standards and allow for a flexible response to violations. Differences relate to how the RBA and enforcement actions are applied in practice. Globally, a more focused effort is required on the part of some authorities to apply the RBA in line with international standards.

47. **All surveyed jurisdictions impose special additional requirements on correspondent banks and many also specifically assess the risk of correspondent activities in their national risk assessments.** Some jurisdictions have complemented this assessment with targeted, standalone assessments of correspondent activity or cross-border corridor risk assessments, but there is no universally accepted or applied set of tools such as defined metrics, data collection frameworks specifically targeting correspondent banking, or supervisory returns designed to capture its specific risks. On the other hand, some of the jurisdictions' assessment of correspondent risk appears to leave room for a substantially more in-depth treatment and there is scope for greater use of supervisory measures targeted specifically at correspondent activity.

48. **Measures have been taken to address the decline of correspondent banking relationships.** In all surveyed jurisdictions, regulatory frameworks reflect, or refer to, recent FATF and BCBS guidance. In addition, most authorities use tools to ensure supervisory consistency and have adopted measures to build staff capacity for supervisory bodies and banks. This attention to the issue is positive and the survey revealed a number of helpful actions undertaken by the surveyed institutions. At the same time, greater efforts are needed worldwide to address the underlying ML/TF/PF risks, and to strengthen the supervision of correspondent banking.

49. **Enforcement frameworks are generally flexible and allow for a public messaging component, but application of those frameworks differs.** A wider review of supervisory practices

³¹ AUSTRAC, for example, has prepared a detailed assessment report on remittance corridors. See AUSTRAC (2019a) for further details.

suggests that the international standards are generally observed in principle. In practice, however, there appears to be a tendency towards the middle ground, with fewer jurisdictions demonstrating the use of strong penalties for the most egregious cases worldwide. The lack of robust enforcement actions in some jurisdictions poses a challenge for correspondent banks in assessing the effectiveness of the AML/CFT/CPF system in the jurisdictions where they have respondents and may create added incentives to resort to wholesale de-risking. Accordingly, an approach to consistently applying focused, public and sufficiently deterrent sanctions by supervisors of respondent banks could help prevent blanket de-risking decisions by correspondent banks. In this regard, clarification from supervisory authorities on the reasons for remedial actions can further help correspondent banks to assess AML/CFT/CPF frameworks.

50. Surveyed jurisdictions expressed optimism that new approaches to data use and technology could help strengthen supervision, and called for improved international cooperation.

The survey revealed a number of positive examples undertaken by individual jurisdictions to make better use of data and technological improvements to help supervisors make better use of their resources and develop sharper insights into risks. Supervisors are also calling for improved international cooperation as a focus area. Supervisors believe this is an area that is ripe for improvements that would have a strong impact on the quality of supervision. Specifically, the survey identified as an area for further work reviewing barriers to information-sharing and identifying appropriate legal gateways to facilitate cross-border AML/CFT/CPF information-sharing.

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