



Ciudad de México, 28 de octubre de 2016.

COMUNICADO: DGSF/DSE/39/2016.

ASUNTO: "GUIDANCE CORRESPONDENT BANKING SERVICES (GUÍA PARA SERVICIOS DE BANCA CORRESPONSAL)".- Se da a conocer.

DIRIGIDO: A LOS OFICIALES DE CUMPLIMIENTO DE LAS INSTITUCIONES Y SOCIEDADES MUTUALISTAS DE SEGUROS E INSTITUCIONES DE FIANZAS.

Para efectos de lo dispuesto en el ANEXO 27.2.1 FORMA Y TÉRMINOS PARA LA CONSULTA DE LA DOCUMENTACIÓN E INFORMACIÓN EMPLEADA EN LAS LABORES PARA PREVENIR Y DETECTAR LAS OPERACIONES PREVISTAS EN EL ARTÍCULO 492 DE LA LISF, QUE PROPORCIONE LA SECRETARÍA A LA COMISIÓN, párrafos primero, segundo, quinto y sexto, publicado en el Diario Oficial de la Federación el 1° de abril de 2015, de la Circular Única de Seguros y de Fianzas, publicada en el mismo Diario el 19 de diciembre de 2014, se da a conocer la Guía para Servicios de Banca Corresponsal.

La Unidad de Inteligencia Financiera de la Secretaría de Hacienda y Crédito Público, por Oficio No. 110.-A-590/2016, de 25 de octubre de 2016, con fundamento en el artículo 15-A fracción XV de su Reglamento Interior, solicita a esta Comisión se remita a las instituciones y sociedades mutualistas de seguros e instituciones de fianzas, la "GUIDANCE CORRESPONDENT BANKING SERVICES (GUÍA PARA SERVICIOS DE BANCA CORRESPONSAL)".

Como es de su conocimiento, México es miembro de pleno derecho del Grupo de Acción Financiera sobre el Blanqueo de Capitales (GAFI) desde 2000, el cual tiene como principal objetivo establecer las políticas y lineamientos internacionales en materia de lucha contra el lavado de dinero y el financiamiento al terrorismo midiendo su implementación mediante evaluaciones mutuas entre los miembros del Grupo.

Al respecto, por medio del presente hacemos de su conocimiento que en la Reunión Plenaria celebrada los días 19, 20 y 21 del presente mes y año, el GAFI aprobó la Guía para Servicios de Banca Corresponsal, documento que se anexa al presente, asimismo, este documento se encuentra disponible en la siguiente liga:

<http://www.fatf-gafi.org/publications/fatfrecommendations/documents/correspondent-banking-services.html>

Cabe mencionar que esta Guía pretende:

- Brindar una mayor claridad sobre las expectativas regulatorias en materia de debida diligencia.
- Explicar los requerimientos que de acuerdo con el GAFI deben de cumplirse en el contexto de servicios de banca corresponsal.



- Aclarar que no hay necesidad de practicar KYCC (debida diligencia de cada cliente de la institución responsable).
- Especificar que no todas las relaciones de banca corresponsal implican el mismo riesgo y en consecuencia, las medidas de debida diligencia deben de ser fijadas en medida del riesgo.

ANEXO: Guía (21 fojas)

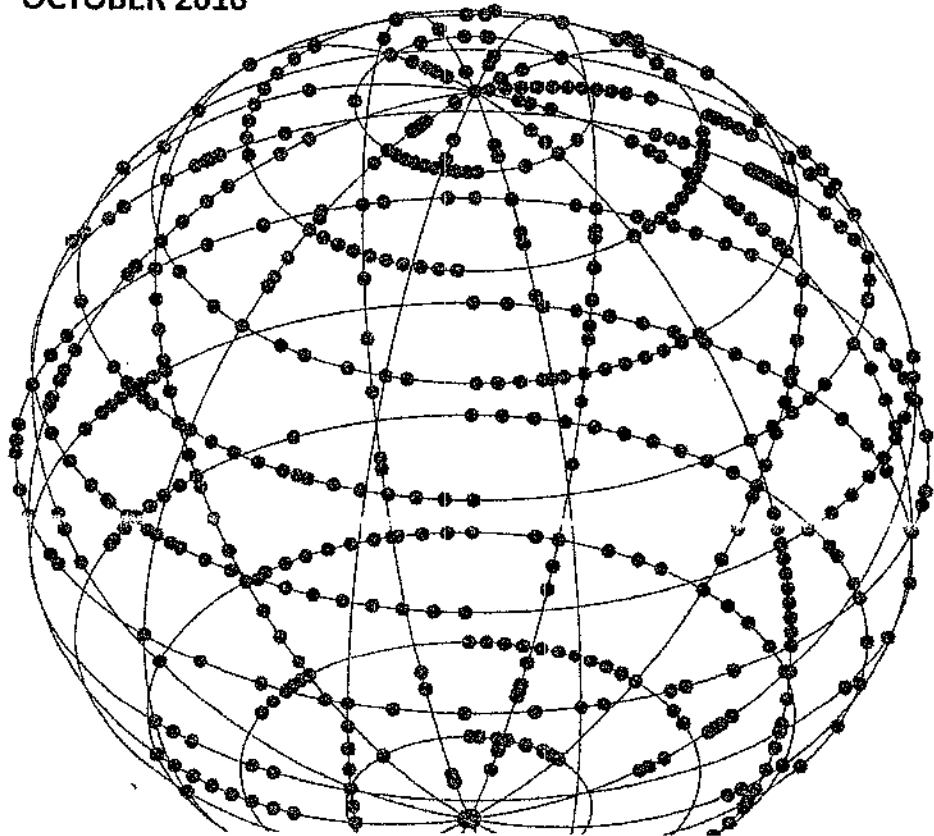
The FATF logo is a dark, shield-shaped emblem with a white outline. Inside the shield, the letters "FATF" are written in a bold, white, sans-serif font. Below the text, there is a stylized white graphic that resembles a globe or a network of lines.

FATF

FATF GUIDANCE

CORRESPONDENT BANKING SERVICES

OCTOBER 2016





The Financial Action Task Force (FATF) is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. The FATF Recommendations are recognised as the global anti-money laundering (AML) and counter-terrorist financing (CFT) standard.

For more information about the FATF, please visit www.fatf-gafi.org

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Citing reference:

FATF (2016), *Guidance on correspondent banking services*, FATF, Paris
www.fatf-gafi.org/publications/fatfrecommendations/documents/correspondent-banking-services.html

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LIST OF ACRONYMS

AML	Anti-money laundering
BCBS	Basel Committee on Banking Supervision
CDD	Customer Due Diligence
CFT	Counter-terrorist financing
CPMI	Committee on Payments and Market Infrastructures
DNFBP	Designated Non-Financial Business Professions
EDD	Enhanced Due Diligence
MVTS	Money or value transfers service
RBA	Risk-based approach

GUIDANCE ON CORRESPONDENT BANKING SERVICES

This Guidance should be read in conjunction with the *FATF Recommendations*, especially Recommendations 1, 6, 7, 10, 11, 13, 14, 16, 20 and 26, their Interpretive Notes and the Glossary.

This Guidance should also be read in conjunction with the following FATF guidance papers and typologies reports which relate to proper implementation of the risk-based approach (RBA) in the banking and money or value transfer (MVTs) sectors:

- FATF RBA Guidance for the banking sector, 2014
- FATF RBA Guidance for Money or Value Transfer Services, 2016
- Guidance on the Risk-Based Approach for Effective Supervision and Enforcement by AML/CFT Supervisors of the Financial Sector and Law Enforcement, 2015
- FATF Guidance on AML/CFT and Financial Inclusion, 2013
- FATF Guidance on Politically Exposed Persons, 2013
- FATF Report: Money Laundering through Money Remittance and Currency Exchange Providers, 2010 and
- FATF Report: The role of Hawala and other similar service providers in money laundering and terrorist financing, 2013.

The following guidance papers and tools are also relevant sources of information on how to manage the risks of correspondent banking relationships:

- Basel Committee on Banking Supervision, Guidance on Sound Management of Risks Related to Money Laundering and Financing of Terrorism, 2014
- Wolfsberg Group, Anti-Money Laundering Principles for Correspondent Banking, 2014, and
- Wolfsberg Group, Anti-Money Laundering Questionnaire, 2014.
- Committee on Payments and Market Infrastructures, Correspondent Banking – consultative report, 2015
- Basel Committee on Banking Supervision Supervisory Guidance for Managing Risks Associated with the Settlement of Foreign Exchange Transactions, 2016

I. INTRODUCTION

A. BACKGROUND – FATF ACTION TO ADDRESS DE-RISKING IN THE CORRESPONDENT BANKING CONTEXT

1. In the wake of the global financial crisis and countries' response to it, the international community has been increasingly concerned about *de-risking*. The FATF understands this term to mean situations where financial institutions terminate or restrict business relationships with entire countries or classes of customer in order to avoid, rather than manage, risks in line with the FATF's risk-based approach (RBA). This is a serious concern for the FATF and the FATF-style regional bodies (FSRBs) to the extent that de-risking may drive financial transactions into less/non-regulated channels, reducing transparency of financial flows and creating financial exclusion, thereby increasing exposure to money laundering and terrorist financing (ML/TF) risks.
2. Analytical work undertaken so far by different bodies, including the FATF,¹ shows that de-risking is a complex issue driven by various considerations including: profitability; reputational and liability risks; changes in banks' financial risk appetites; the amount of financial penalties imposed by supervisory and law enforcement authorities, increased compliance costs associated with implementing conflicting regulatory requirements, including anti-money laundering and counter-terrorist financing (AML/CFT) and confusion caused by the term Know-Your-Customer's-Customer (KYCC). A recent survey² also shows that in some cases, banks will exit the relationship solely on the basis of profits ("de-marketing"), irrespective of the risk context and of market circumstances.
3. The term KYCC has created a lot of confusion. To clarify, the *FATF Recommendations* do not require financial institutions to conduct customer due diligence on the customers of their customer (i.e., each individual customer). In a correspondent banking relationship, the correspondent institution will monitor the respondent institution's transactions with a view to detecting any changes in the respondent institution's risk profile or implementation of risk mitigation measures (i.e. compliance with AML/CFT measures and applicable targeted financial sanctions), any unusual activity or transaction on the part of the respondent, or any potential deviations from the agreed terms of the arrangements governing the correspondent relationship. In practice, where such concerns are detected, the correspondent institution will follow up with the respondent institution by making a request for information (RFI) on any particular transaction(s), possibly leading to more information being requested on a specific customer or customers of the respondent bank. There is no expectation, intention or requirement for the correspondent institution to conduct customer due diligence on its respondent institution' customers.

¹ The FATF circulated a questionnaire to banks and MVTS in late 2015 to gather information from the private sector which helped to form the basis of this guidance.

² ACAMS/Dow Jones (2016), *Global Anti-Money Laundering Survey Results 2016*, http://files.acams.org/pdfs/2016/Dow_jones_and_ACAMS_Global_Anti-Money_Laundering_Survey_Results_2016.pdf.

4. In June 2015, the FATF issued a public statement³ to clarify that, when establishing correspondent banking relationships, correspondent institutions are required to perform customer due diligence (CDD) on the respondent institution, and gather sufficient information about the respondent institution to understand its business, reputation and the quality of its supervision, including whether it has been subject to a ML/TF investigation or regulatory action, and to assess the respondent institution's AML/CFT controls. It was clarified that the *FATF Recommendations* do not require correspondent institutions to perform CDD on the customers of their respondent institutions when establishing correspondent banking relationships or in the course of the relationship.

5. Although the financial sector welcomed that and other FATF public statements on de-risking,⁴ it also sought further clarification on supervisory expectations for conducting customer due diligence on correspondent institution's respondents. In turn, supervisors and regulators need to be clear about how they assess financial institutions against those expectations. For that reason, the FATF committed to developing guidance to further clarify supervisory expectations for correspondent banking relationships in relation to the obligations defined by the FATF standards. This clarification is consistent with the FATF's overall approach to de-risking which is based on the effective implementation of the global AML/CFT standards, in line with the FATF's RBA. The *FATF Recommendations* require financial institutions to identify, assess and understand their ML/TF risks, and implement AML/CFT measures that are commensurate with the risks identified. Indeed, the RBA is the cornerstone of an effective AML/CFT system, and is essential to effectively managing risks.

6. Prudential and other regulatory requirements as well as the complexity, number and changes in sanctions regimes, and also uncertainty related to the interplay of different sanctions regimes and their applicability to financial institutions, were also mentioned as drivers of de-risking. AML/CFT regulations are therefore only one of a multitude of factors cited for closing correspondent banking relationships. These results are largely in line with the prevailing understanding of the FATF and other international organisations doing work in this area, including the Financial Stability Board (FSB), Committee on Payments and Market Infrastructures (CPMI), Basel Committee for Banking Supervision (BCBS)'s Anti-Money Laundering Experts Group (AMLEG), International Monetary Fund (IMF) and the World Bank.

7. Although many of the factors contributing to de-risking go far beyond AML/CFT and the FATF mandate, the FATF is committed to addressing this issue to the extent it can by issuing guidance clarifying how to implement the FATF's RBA properly and effectively, consistent with previous FATF guidance.⁵

³ See FATF(2015), *Drivers for "de-risking" go beyond anti-money laundering / terrorist financing* www.fatf-gafi.org/publications/fatfrecommendations/documents/derisking-goes-beyond-amlcft.html.

⁴ See the public statements issued by FATF on de-risking in [October 2014](#), [June 2015](#) and [October 2015](#).

⁵ Including *Revised Guidance on AML/CFT and Financial Inclusion (2013)*.

8. Correspondent banking is an activity that has been negatively impacted by de-risking in certain regions⁶ and sectors. This is of concern to the international community, as correspondent banking is an important means of facilitating cross-border movements of funds, and enabling financial institutions to access financial services in different currencies and foreign jurisdictions, thereby supporting international trade, charitable giving, commerce and remittances flows, all of which contributing to promoting financial inclusion.

8. THE PURPOSE OF THIS GUIDANCE, THE TARGET AUDIENCE, AND THE STATUS OF THIS GUIDANCE

9. The purpose of this Guidance is to address de-risking by clarifying the application of the FATF standards in the context of correspondent banking relationships and money or value transfer service (MVTS) providers rendering similar services (i.e. MVTS acting as intermediaries in processing and/or executing the transactions of their own customers through accounts – see II d) below) by:

- a) supporting the development of a common understanding of what the RBA entails for banks engaged in correspondent banking activity and MVTS providers rendering similar services; respondent institutions with MVTS providers as customers; and financial institutions relying on third-party MVTS providers, in their role as intermediaries, to execute payment transactions,
- b) clarifying the interplay between the FATF standards on cross-border correspondent banking (Recommendation 13) and MVTS providers acting as intermediaries, and the FATF standards on customer due diligence (Recommendation 10) and wire transfers (Recommendation 16), as well as on targeted financial sanctions (Recommendations 6 and 7),
- c) highlighting the extent to which correspondent institutions and MVTS providers offering similar services may gain a sufficient understanding of the customers of the respondent institutions and the associated risks, and
- d) clarifying the expectations for correspondent institutions when dealing with respondents whose customer bases include MVTS providers.

10. The target audiences of this Guidance are:

- a) banks and MVTS providers engaged in providing correspondent banking or respondent banking services,
- b) financial institutions with account holders that are MVTS which in turn provide correspondent banking-type services to their own customers (as opposed to MVTS providers who are holding and using their account for their own corporate purposes), and

⁶ Refer to: [Joint Survey by the Union of Arab Banks \(UAB\) and the International Monetary Fund \(IMF\)](#); The World Bank's [Fact Finding Summary from De-risking Surveys](#) and [Withdrawal from Correspondent Banking: Where, Why, and What to Do About It](#)

- c) competent authorities (particularly AML/CFT regulators and supervisors of banks and of MVTs providers).

11. It should be noted that this Guidance has been prepared in collaboration with the FSB, which is coordinating work to assess and address the extent and causes of banks' withdrawal from correspondent banking to identify possible policy responses to address this issue⁷, through the implementation of a four-point action plan (data collection, clarification of regulatory expectations, domestic capacity building, and strengthening the tools for due diligence) coordinated by the Correspondent Banking Coordination Group. Other international organisations doing related work in the correspondent banking area (for ex. CPMI and BCBS) have also been closely associated to development of this FATF Guidance.

12. This Guidance draws on the experiences of countries and of the private sector to assist competent authorities and financial institutions in effectively implementing applicable *FATF Recommendations* using the risk-based approach to avoid the unintended consequences of de-risking. It also uses input from other relevant standard setters, and especially the BCBS with its Guidance on *Sound management of risks related to money laundering and financing of terrorism* (Annex II on correspondent banking). This FATF Guidance is non-binding and does not overrule the purview of national authorities to, among other things, assess and regulate correspondent banking activities and MVTs sectors as per the legal, supervisory and regulatory frameworks established in each country and/or region, the ML/TF risks present in each jurisdiction, individual institution's risk assessments and other contextual factors (e.g. sophistication and maturity of the national regulatory and supervisory regime).

II. DEFINITIONS

13. The following definitions apply for the purposes of this Guidance:

- a) *Correspondent banking* is the provision of banking services by one bank (the "correspondent bank") to another bank (the "respondent bank"). Large international banks typically act as correspondents for thousands of other banks around the world. Respondent banks may be provided with a wide range of services, including cash management (e.g. interest-bearing accounts in a variety of currencies), international wire transfers, cheque clearing, payable-through accounts and foreign exchange services⁸.

Correspondent banking does not include one-off transactions or the mere exchange of SWIFT Relationship Management Application keys (RMA)⁹ in the context of non-

⁷ FSB (2015), *Report to the G20 on actions taken to assess and address the decline in correspondent banking*. www.fsb.org/wp-content/uploads/Correspondent-banking-report-to-G20-Summit.pdf

⁸ FATF Glossary

⁹ The SWIFT RMA is a messaging capability enabling SWIFT members to exchange messages over the network and can create a non-customer relationship in particular cases of cash management, custody, trade finance, exchange of messages with payments and securities markets infrastructure entities, e.g., exchanges depositories

customer relationships, but rather is characterised by its on-going, repetitive nature.

Correspondent banking services encompass a wide range of services which do not all carry the same level of ML/TF risks. Some correspondent banking services present a higher ML/TF risk because the correspondent institution processes or executes transactions for its customer's customers.

Hence, the focus of this guidance is correspondent banking relationships that are higher risk, in particular cross-border correspondent banking relationships involving the execution of third party payments.

This guidance also applies to money or value transfer services (MVTs) acting as intermediaries for the transfer of funds or value (see d below), in line with Recommendation 13 which applies to financial institutions engaging in cross-border correspondent banking *and other similar relationships*. This guidance does not apply to securities transactions,

- b) *correspondent institution* means the bank or MVTs provider which processes and/or executes transactions for customers of the respondent institution or MVTs provider the account of which is used to process and/or execute the transaction of its customer. The correspondent institution generally does not have direct business relationships with the customers of the respondent institution, unless it provides payable-through-account services (see paragraph 21 below). Those respondents' customers may be individuals, corporations or financial services firms.¹⁰ In addition to the processing of third-party payments, a correspondent institution may also provide other services to the respondent institution, such as trade-finance related services, cash clearing, liquidity management and short-term borrowing, foreign exchange or investment in a particular currency,
- c) *respondent institution* means the financial institution that is the direct customer of the correspondent institution,
- d) *money or value transfer service (MVTs)* refers to financial services that involve the acceptance of cash, cheques, other monetary instruments or other means of stored value and the payment of a corresponding sum in cash or other form to a beneficiary by means of a communication, message, transfer, or through a clearing network to which the MVTs provider belongs. Transactions performed by such service providers can involve one or more intermediaries and a final payment to a third party, and may include new payment methods. Sometimes these services

¹⁰ This definition is generally in line with the definition of *correspondent bank* set out of page 24 of the Basel Committee on Banking Supervision guidance on *Sound management of risks related to money laundering and financing of terrorism*, which has been extended for the purposes of this guidance to also include MVTs which are providing financial services as intermediaries in the same way that a correspondent bank would.

have ties to particular geographic regions and are described using a variety of specific terms, including *hawala*, *hundi*, and *fei-chen*.¹¹

MVTS providers “offer similar services” as correspondent institutions when they act as intermediaries for other MVTS providers or where an MVTS provider is accessing banking or similar services through the account of another MVTS customer of the bank,

- e) from the Glossary of the *FATF Recommendations*, the definitions of *competent authorities*,¹² and *financial institutions*.¹³

III. IDENTIFYING THE RISKS – THE INTERPLAY OF RECOMMENDATIONS 10 AND 13

A. DUE DILIGENCE ON THE RESPONDENT INSTITUTION

14. The requirements of both FATF Recommendations 10 and 13 must be met in all cases before cross-border correspondent banking services may be provided to a respondent institution. FATF Recommendation 13 requires additional measures to be applied to cross-border correspondent banking relationships, in addition to performing the CDD and enhanced due diligence (EDD) measures in FATF Recommendation 10 for high risk customers.¹⁴ Such additional measures are appropriate because cross-border correspondent banking relationships are seen to be inherently higher risk than domestic correspondent customer relationships. Consequently, simplified CDD measures are never appropriate in the cross-border correspondent banking context, when activities described in para. 13 (a) are conducted.

¹¹ This definition can be found in the Glossary to the *FATF Recommendations*.

¹² *Competent authorities* refers to all public authorities with designated responsibilities for combating money laundering and/or terrorist financing. In particular, this includes the FIU; the authorities that have the function of investigating and/or prosecuting money laundering, associated predicate offences and terrorist financing, and seizing/freezing and confiscating criminal assets; authorities receiving reports on cross-border transportation of currency & BNIs; and authorities that have AML/CFT supervisory or monitoring responsibilities aimed at ensuring compliance by financial institutions and DNFBPs with AML/CFT requirements. SRBs are not to be regarded as competent authorities.

¹³ *Financial institutions* means any natural or legal person who conducts as a business one or more of the following activities or operations for or on behalf of a customer: 1. Acceptance of deposits and other repayable funds from the public; 2. Lending; 3. Financial leasing; 4. Money or value transfer services; 5. Issuing and managing means of payment (e.g. credit and debit cards, cheques, traveller's cheques, money orders and bankers' drafts, electronic money); 6. Financial guarantees and commitments; 7. Trading in: (a) money market instruments (cheques, bills, certificates of deposit, derivatives etc.); (b) foreign exchange; (c) exchange, interest rate and index instruments; (d) transferable securities; (e) commodity futures trading. 8. Participation in securities issues and the provision of financial services related to such issues; 9. Individual and collective portfolio management; 10. Safekeeping and administration of cash or liquid securities on behalf of other persons; 11. Otherwise investing, administering or managing funds or money on behalf of other persons; 12. Underwriting and placement of life insurance and other investment related insurance; 13. Money and currency changing.

¹⁴ For information on cases in which enhanced CDD measures are required, refer to the Interpretive Note for FATF Recommendation 10, paragraph 20.

15. Although additional CDD measures always apply to cross-border correspondent banking relationships as described above, correspondent banking relationships may be diverse in nature and therefore some may be higher risk than others. Financial institutions should therefore recognise the degree of risk of different types correspondent banking activity, including in activities considered as higher risks, as described in para. 13 (a).

16. Correspondent institutions, in assessing the risks of their respondent must ensure that the assessment is sufficiently robust to consider all the relevant risk factors. By doing so, the different levels of inherent risks are clearly understood and appropriate controls applied to each, ensuring the effective management of these risks. Accordingly, the extent to which additional measures should be applied will vary on a case-by-case basis, depending on the level or type of residual risk, including the measures the respondent institution has implemented to mitigate its own ML/TF risks. Factors to consider in assessing correspondent banking risks could include for instance the respondent institution's jurisdiction, the products/services it offers and its customer base. It is not possible to develop a conclusive list of types of higher risk relationships for several reasons. First, there is no exhaustive list of risk factors that could be used to identify such relationships that would apply equally to all relationships. Second, both relevant risk factors and applicable risk mitigation measures must be considered together to form an accurate and comprehensive picture of the risks. For these reasons, any effort to define what constitutes a higher risk relationship could have the unintended consequence of encouraging rather than discouraging de-risking by promoting a more rules-based and tick-the-box approach to risk management. The risk factors included in the Annex II of the BCBS Guidelines on *Sound management of risks related to money laundering and financing of terrorism*¹⁵ are examples of factors which correspondent institutions can use when assessing the risks of their correspondent banking relationships.

17. When entering into a business relationship, as a first step, the correspondent institution should identify and verify the identity of the respondent institution, using reliable, independent source documents, data or information (Recommendation 10 (a)). It should also identify and take reasonable measures to verify the identity of the beneficial owner(s), such that the correspondent institution is satisfied that it knows who the beneficial owner(s) of the respondent institution is/are. In order to do that, the correspondent institution should also understand the ownership and control structure of the respondent institution.¹⁶ The information about the ownership and control structure includes conducting verification enabling the correspondent institution to be satisfied that the respondent institution is not a shell bank.¹⁷

18. Additionally, the correspondent institution should gather sufficient information to understand the purpose and intended nature of the correspondent banking relationship with the

¹⁵ Para 7.

¹⁶ FATF Recommendation 10, sub-paragraph 4(a) and (b)

¹⁷ FATF Recommendation 13 prohibits financial institutions from entering into correspondent banking relationships with shell banks. The Glossary to the *FATF Recommendations* defines the term *shell bank* to mean 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. *Physical presence* means meaningful mind and management located within a country. The existence simply of a local agent or low level staff does not in itself constitute physical presence.

respondent institution.¹⁸ This includes understanding what types of customers the respondent institution intends to service through the correspondent banking relationship and how it will offer services (e.g. through nested relationships as noted in para. 21), including the expected activity level, the transaction volume and value, the nature of the planned transactions and the extent to which any of these are assessed as high risk by the respondent institution.

19. The correspondent institution should also gather sufficient information and determine from publicly available information the reputation of the respondent institution and the quality of its supervision, including whether (and when) it has been subject to a ML/TF investigation or regulatory action.¹⁹

20. In addition, the correspondent institution should assess the respondent institution's AML/CFT controls.²⁰ In practice, such an assessment should involve reviewing the respondent institution's AML/CFT systems and controls framework. The assessment should include confirming that the respondent institution's AML/CFT controls are subject to independent audit (which could be external or internal). A more detailed/in-depth review should be conducted for higher risk relationships, possibly including reviewing the independent audit, interview of compliance officers, a third party review and potentially an onsite visit.

21. The correspondent institution should also understand how the respondent institution will be offering services available through the correspondent banking relationship to its customers and assess the nature and level of risk associated with offering arrangements. There are several possible arrangements for offering services, e.g.

- by establishing correspondent accounts to which the respondent institution's financial institution customers do not have direct access, but instead transact indirectly through the account via payment instructions delivered to the respondent institution;
- by establishing *nested relationships*²¹ (i.e. downstream banking) which require that:
 - ✓ the correspondent institution is duly informed about the existence of such relationships and the operations/transactions of the customers of the nested institutions, that the locations in which the nested institutions conduct business are transparent to, and understood by, the correspondent institution, and the respondent is transparent in formatting payment instruction so all involved parties are included for monitoring and screening purposes;

¹⁸ FATF Recommendation 10, sub-paragraph 4(c).

¹⁹ FATF Recommendation 13, sub-paragraph (a).

²⁰ FATF Recommendation 13, sub-paragraph (b). One of the tools that could be used as a starting point is the Wolfsberg questionnaire

²¹ "Nested correspondent banking refers to the use of a bank's correspondent relationship by a number of respondent banks through their relationships with the bank's direct correspondent bank to conduct transactions and obtain access to other financial services." (footnote 43 in Annex I1 of the BCBS *Guidelines on Sound management of risks related to money laundering and financing of terrorism*)

- ✓ the correspondent institution has measures in place to detect potential, undisclosed nested relationships provided by the respondent and takes appropriate follow-up action when a respondent does not disclose the existence of a nested relationship;
 - ✓ the correspondent institution understands the respondent's control framework with respect to those relationships. Such review should take into account the implementation of appropriate controls to address the underlying risks posed by these relationships (for instance, if the transaction monitoring procedures are comprehensive of the relevant factors, whether they are based on manual transaction reviews and the accuracy of the automated ones, whether the institution has the resources to conduct such reviews, etc.);
- by establishing *payable-through accounts*²² which can also be offered provided that the correspondent institution identifies risks associated with the relationship and applies enhanced controls to monitor transaction activity that are commensurate with the identified risks. The correspondent should have policies, procedures and processes in place to enable it to identify the ultimate user of the account and needs to be satisfied that the respondent institution has conducted sufficient CDD on the customers having direct access to the account of the correspondent institution, has appropriate controls in place to identify and monitor the transactions conducted by those customers and is able to provide relevant, individual CDD information upon request to the correspondent institution.²³

B. DEVELOPING AN UNDERSTANDING OF THE RESPONDENT INSTITUTION'S BUSINESS

22. The correspondent institution should also gather sufficient information to understand the nature of the respondent institution's business in line with the risks identified.²⁴ This means that correspondent institutions are required to understand the target markets and customer segments that are served by their respondent (as outlined in para. 18) as part of their assessment of risks. Understanding the business profile of the respondent institution requires the correspondent to consider all relevant risk factors²⁵ (e.g. developing a general overview of the respondent institution's products and services and customer base, including nested relationships; countries and markets in which it operates; transactions in which it engages on behalf of its customer base and

²² Payable-through-accounts (pass-by accounts) are correspondent accounts that are used directly by third parties to transact business on their own behalf (INR 13). They are used by foreign financial institutions to give their customers access to the domestic banking system. This enables the foreign bank's customers to write checks and make deposits at a bank in the jurisdiction like any other account holder (in effect, giving customers of respondent banks access to more services).

²³ FATF Recommendation 13, sub-paragraph (e).

²⁴ FATF Recommendation 12, sub-paragraph (a).

²⁵ In the context of a correspondent banking relationship, the correspondent institution's customer is the respondent institution.

delivery channels it uses).²⁶ This includes verification by the correspondent institution that the respondent institution does not permit its accounts to be used by shell banks.²⁷

IV. VERIFYING RESPONDENT INSTITUTIONS' INFORMATION, AND ASSESSING/DOCUMENTING HIGHER RISKS

23. When establishing new correspondent banking relationships, the correspondent institution may obtain information required by Recommendations 10 and 13 directly from the respondent institution. However, as noted in para. 17 above, this information needs to be verified in order to meet the requirements of those Recommendations.

24. Examples of potential reliable, independent sources of information for the verification of identity of natural persons, legal persons and arrangements include: corporate registries, registries maintained by competent authorities on the creation or licencing of respondent institutions, registries of beneficial ownership and other examples mentioned in the BCBS General Guide on Account Opening.²⁸

25. Some examples of potential sources of information on level of risks include, but are not limited to: the AML/CFT laws and regulations of the home country or the host country where the respondent institution is doing business and how they apply, public databases of legal decisions and/or regulatory or enforcement actions, annual reports that have been filed with a stock exchange, country assessment reports or other information published by international bodies which measure compliance and address ML/TF risks (including the FATF, FSRBs, BCBS, IMF and World Bank), lists issued by the FATF in the context of its International Cooperation Review Group process, reputable newspapers, journals or other open source electronic media, third party databases, national or supranational risk assessments, information from the respondent institution's management and compliance officer(s) and public information from the regulator and supervisor.

26. Where the correspondent institution has identified a higher risk correspondent banking relationship, it should apply enhanced measures that are in line with the risks associated to that relationship. For example, in some circumstances, closer interaction (conference phones or face-to-face meetings) with the respondent institution's management and compliance officer(s) may be appropriate.

27. Where correspondent institutions are permitted to rely on other banks (that may already have a correspondent relationship with the respondent institution), they should ensure that a copy of the CDD information relied on will be made available upon request without delay, be satisfied they can obtain supporting documentation, be satisfied the bank being relied on is regulated and has

²⁶ FATF Interpretive Note to Recommendation 10, paragraph 15.

²⁷ FATF Recommendation 13, second paragraph.

²⁸ Annex 4, General Guide to Account Opening, pages 29 to 39 of the Basel Committee on Banking Supervision guidance on Sound management of risks related to money laundering and financing of terrorism (February 2016).

measures in place that are reliable.²⁹ The ultimate responsibility for implementing AML/CFT measures remains with the correspondent institution.

28. In all cases, the correspondent institution should obtain approval from senior management before establishing new cross-border correspondent relationships, as required by FATF Recommendation 13.³⁰

V. MANAGING THE RISKS

A. ONGOING DUE DILIGENCE ON THE RESPONDENT INSTITUTION

29. Correspondent institutions are required to conduct ongoing due diligence of the correspondent banking relationship, including periodical reviews of the CDD information on the respondent institution. This is to ensure that such information is kept up-to-date in line with the risks associated with the relationship.³¹ The process of managing ML/TF risk in the relationship should be ongoing, and applied to existing relationships as well as new ones. The frequency with which periodic reviews are undertaken will depend on the level of risk associated with the respondent institution. Where such reviews reveal changes in the respondent institution, the correspondent institution should consider whether it should adjust its risk assessment of the respondent institution and what further information may be needed to support this adjustment. Potential obstacles may relate to how data protection and privacy laws are applied.³²

B. ONGOING TRANSACTION MONITORING

30. In line with Recommendation 10, ongoing monitoring of the correspondent banking account activity has to be conducted for compliance with targeted financial sanctions and to detect any changes in the respondent institution's transaction pattern or activity that may indicate unusual activity, or any potential deviations from the correspondent relationship. Depending on the risks associated with the correspondent banking relationship, various monitoring techniques and tools can be used. Correspondent institutions should put in place and periodically review risk-based procedures specifying the applicable monitoring techniques and the criteria triggering their adoption. While deciding the type and extent of the monitoring technique, correspondent institutions should take into consideration the respondent's past behaviour in the course of the correspondent relationship, in particular any failures to satisfy previous requests for information. In higher risk scenarios for example, real-time monitoring of transactions can take place to ensure that controls are effective in detecting any unusual activity that may be occurring in the account, with a view to analysing it and reporting any suspicious transactions.

²⁹ FATF Recommendation 17.

³⁰ Sub-paragraph (c).

³¹ FATF Interpretive Note to Recommendation 10, paragraph 23.

³² The FATF is currently developing best practices on information sharing (enterprise-wide, between financial institutions not part of the same group, and between public and private authorities).

C. ONGOING MONITORING AND THE INTERPLAY WITH RECOMMENDATIONS 6, 7 AND 16

31. Correspondent banking relationships should always be subject to on-going monitoring. They may also be subject to targeted monitoring depending on any unique risk factors, e.g. high suspicious activity report filing, payment flows inconsistent with stated purpose of account. The level and nature of transaction monitoring will vary, depending on the risks and the nature of the correspondent banking services being provided. For example, if the main purpose of the correspondent banking relationship is to process cross-border wire transfers³³ on behalf of the respondent institution's customers, the focus of account monitoring could be how well the respondent institution is implementing sanctions screening and its requirements under FATF Recommendations 6, 7 and 16. In such cases, particular areas of interest could include information on the respondent institution's mechanisms for screening transactions lacking required originator and beneficiary information in a manner that is consistent with straight-through processing,³⁴ its risk-based policies and procedures for determining how to handle such transactions, its systems for sanctions screening,³⁵ and its procedures and systems for clearing false positives.³⁶

D. ONGOING MONITORING AND REQUEST FOR INFORMATION ABOUT TRANSACTIONS

32. Where the monitoring system of the correspondent institution flags a transaction which could signal unusual activity, the correspondent institution should have internal processes to further review the activity, which may involve requesting transaction information of the respondent institution in order to clarify the situation and possibly clear the alert. This request for additional information should be targeted on the specific transaction which created an alert in the system, and could include, depending on the risk level of the transaction, a request to access information about the customer of the respondent institution as a means to get a proper understanding of the reasonableness of the transaction. This does not amount to a requirement to conduct CDD on the customer of the respondent. In practice, the correspondent institution will follow up with the respondent institution after the transaction is completed by making a request for information on that particular transaction(s) (RFI). Subsequently, the correspondent institution should also review its control systems in order to detect similar transactions. Such questions may include some, but not necessarily all, of the following:

- Duration of customer "X" relationship with the respondent institution and whether the respondent institution classifies the customer as a high risk customer.
- Purpose of the account(s) maintained by customer "X" (business, personal, other).

³³ As defined in Recommendation 16.

³⁴ FATF Interpretive Note to Recommendation 16, paragraphs 17 and 18.

³⁵ FATF Recommendations 6 and 7 requires financial institutions to freeze the funds of persons and entities designated by, or under the authority of, the United Nations Security Council or designated by countries pursuant to resolution 1373 (2001), and prohibits financial institutions from making funds available to such designated persons and entities.

³⁶ This does not relieve the correspondent institution of the obligation to have procedures in place to identify the missing originator and beneficiary information.

- Details of customer's "X" parent company and the name(s) of the beneficial owner(s).
- Source of the funds of customer "X".
- Consistency between the transactional history in the account profile of customer "X", and his KYC data, or with any other information available to the bank.
- Rationale of the transaction between customers "X" and a counterparty.
- Nature of the relationship between customers "X" and a counterparty.
- Possible affiliation of customers "X" with a third-party.
- Additional details regarding the goods/services being exchanged by the customers "X" and third-parties that are not found directly in the payment details of the transaction that may explain it.
- If possible, location of customer or third-party as originator/beneficiary and/or,
- Status of the bank account of customer "X" (opened/closed).

33. Where the correspondent institution requests further information on a transaction from the respondent, it expects the respondent to respond in a timely fashion and provide documents/information to the level of detail requested. Where that does not happen, it may trigger concerns that the respondent is unable to manage its risks and lead to the filing of a suspicious transaction report by the correspondent institution. A request for information could be followed by a reassessment of the respondent's business and risk profile where/when necessary.

E. CLEAR TERMS GOVERNING THE CORRESPONDENT BANKING RELATIONSHIP

34. One way for correspondent institutions to manage their risks more effectively from the outset is to enter into a written agreement with the respondent institution before correspondent services are provided. This is consistent with FATF Recommendation 13 that requires a clear understanding of the respective responsibilities of each institution.³⁷ The content of the agreement should include how the correspondent institution will monitor the relationship to ascertain how effectively the respondent institution is applying CDD measures to its customers, and implementing AML/CFT controls.

35. Such an agreement could also specify the products and services to be provided under the correspondent banking relationship, the respondent institution's responsibilities concerning compliance with AML/CFT requirements, permitted third-party usage of the correspondent account and applicable internal controls to these situations, any potential restrictions that the correspondent institution may want to place on the use of the correspondent account (e.g. limiting transaction types, volumes, etc.), conditions regarding the requests for information on particular transactions, especially in the case of "payable through accounts" relationships, and cases and procedures for terminating or limiting a business relationship. Contractual details would vary depending on the circumstances including the nature of the correspondent banking relationship and the level of risk.

³⁷ Sub-paragraph (d).

36. Written agreements also have the advantage of documenting the intended purpose and use of correspondent banking relationships, which may have the added benefit of allowing the correspondent institution to demonstrate to its regulator some of the steps it has taken to understand the risks presented by its correspondent relationships.

F. ONGOING COMMUNICATION AND DIALOGUE

37. Correspondent banking relationships are, by their nature, based on mutual trust between the correspondent and the respondent institutions, particularly that the AML/CFT controls are being effectively implemented by the respondent institution. Consequently, it is important for correspondent institutions to maintain an ongoing and open dialogue with the respondent institution(s), including helping them understand the correspondent's AML/CFT policy and expectations, and when needed, engaging with them to improve their AML/CFT controls and processes. Such communication supports the monitoring requirement by helping to flag new and emerging risks and better understand existing ones, clear up in a timely manner any incidents that may arise during the course of the business relationship, strengthen risk mitigation measures, and resolve any issues that may arise concerning the exchange of information. This process can also assist in building the capacity of respondent institutions. It can also help to avoid unnecessary restriction on or termination of a relationship without a thorough assessment of the risks associated with the specific customer (rather than the class of customers) in line with the RBA (i.e. avoiding de-risking).³⁸ It can also prevent a "cascade" effect, where respondent institutions close their (highest risk) client accounts as a way to reduce their own corporate risk profile and maintain the relationships with their own correspondent institutions.

38. It is also important that regulators and supervisors maintain an open dialogue with correspondent institutions to clarify regulatory/supervisory expectations regarding the management of risks associated with foreign correspondent banking relationships.

G. ADJUSTING THE MITIGATION MEASURES TO THE EVOLUTION OF RISKS

39. As noted above, correspondent banking relationships are very diverse in nature and therefore covering a large range of high risk levels. The level and nature of risk may fluctuate over the course of any relationship and adjustments should be made in the correspondent institution's risk management strategy to reflect these changes. This is why ongoing monitoring, including periodic reviews, is important, so that the correspondent institution is aware of when the level/nature of residual risk (i.e. the risk remaining after a financial institution's AML/CFT control framework is applied to a particular situation) changes.

³⁸ "Regulators and supervisors should also ensure that financial institutions are taking a risk-based approach to implementing AML/CFT measures, without prejudice to rules-based measures such as targeted financial sanctions. Implementation by financial institutions should be aimed at managing (not avoiding) risks. What is not in line with the FATF standards is the wholesale cutting loose of entire countries and classes of customer, without taking into account, seriously and comprehensively, their level of money laundering and terrorist financing risk and applicable risk mitigation measures for those countries and for customers within a particular sector" ([FATF Takes Action to Tackle De-risking](#), FATF public statement of October 2015).

40. Correspondent institutions should have policies and procedures in place tailored to the different categories of higher risk respondent relationships, and the appropriate risk mitigation required or available to retain the relationship by using enhanced due diligence. If higher risks are encountered which are not mitigated by existing enhanced due diligence, the correspondent institution should use this process to further enhance the assessment of the relationship and risk mitigation applied to the account. The objective should be to determine whether the inherent risk level is justified and if so what further, more enhanced, measures can be applied. For example, if the respondent is affected by negative news regarding its beneficial owners, the correspondent institutions could decide to limit services to such a bank.

41. The *FATF Recommendations* do require customer relationships to be terminated where identified risks cannot be managed in line with the risk-based approach.³⁹ However, the other options offered by Recommendation 10 should be explored prior to termination (such as refusing to conduct the transaction, and/or filing a suspicious transaction report). Alternatively, a limitation of services or restriction of individual products/transactions can be considered in order to provide the possibility for clarification or remediation by the respondent institution, before the decision to terminate activity is taken. In any event, correspondent institutions should clearly communicate their concerns to respondent institutions, at senior management level, and inform them of their concerns and the measures needed to address these concerns as a condition to maintain the correspondent banking relationship. Depending on the concerns, correspondent institutions should also consider giving notice periods to respondents, allowing them to find alternatives.

VI. ADDITIONAL GUIDANCE FOR FINANCIAL INSTITUTIONS WHICH HAVE MVTs CUSTOMERS

42. As part of their normal CDD processes, financial institutions are required to understand the purpose and nature of the intended business relationship.⁴⁰ This means that, in practice, where the customer is an MVTs provider, the financial institution should understand whether the MVTs provider intends to use the account for its own corporate or settlement purposes, or whether it intends to use the account to provide correspondent services to its own customers (i.e. the MVTs will be acting as a correspondent institution for its own customers).

43. Where the MVTs provider offers correspondent services for its own customers through its account, the correspondent institution should consider all of the factors listed above in Sections III, IV and V, on a case-by-case basis, in terms of identifying the risks, verifying information, and establishing appropriate risk mitigation measures. In particular, there is no obligation triggered by the *FATF Recommendations* to a financial institution to apply CDD measures to the customers of the MVTs.

44. To facilitate its own risk management, a correspondent institution could consider encouraging or requiring MVTs customers to open one account for conducting their own corporate or settlement activities, and another separate account for providing correspondent banking services

³⁹ FATF Recommendation 10, 7th paragraph.

⁴⁰ FATF Recommendation 10, paragraph 4(c).

on behalf of their customers. This procedure may facilitate effective monitoring of these two activities commensurate with the different types of risk that they present. Separate accounts may also be considered for higher risk activities or higher risk customers and nested or downstream relationships to ensure an appropriate level of transparency and effective monitoring.

45. Banks should flag unusual movements of funds and transactions conducted by their MVTS customers so that such funds or transactions are scrutinised in a timely manner and a determination made as to whether they could be suspicious. If they are suspicious, banks should file a STR.

46. In considering the risks and appropriate risk mitigation measures, it is also important to note that MVTS providers are *financial institutions* under the *FATF Recommendations*⁴¹ and are subject to the full range of AML/CFT preventive measures in FATF Recommendations 9 to 23 applicable to MVTS providers. Countries are also required to ensure that MVTS providers are supervised and monitored in line with FATF Recommendations 14 and 26. Correspondent institutions should take into consideration the manner in which these measures are implemented, in order to understand what their MVTS customers' obligations are and how they are supervised. Countries are also encouraged to communicate their MVTS supervisory policies and approaches to promote a shared understanding of what is expected from correspondent institutions and from MVTS with respect to risk management and mitigation processes. Given the important role that MVTS providers play in facilitating financial inclusion, banks are encouraged to work closely with their MVTS customers to ensure that they understand the banks' risk management objectives and strategies for establishing and maintaining controls to ensure effective ML/TF risk monitoring and identification. The same general processes outlined in Part V above should be considered in this regard, particularly section G.

⁴¹ See the definition of MVTS providers in the Glossary of the *FATF Recommendations*.

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CORRESPONDENT BANKING SERVICES

This guidance explains the FATF's requirements in the context of correspondent banking services. In particular, it clarifies that the FATF Recommendations do not require correspondent financial institutions to conduct customer due diligence on each individual customer of their correspondent institutions' customers. The guidance also highlights that not all correspondent banking relationships carry the same level of money laundering or terrorist financing risks, hence the enhanced due diligence measures have to be commensurate to the degree of risks identified.

The FATF developed this guidance with input from the private sector, and in collaboration with other interested international bodies, including the Financial Stability Board (FSB). The guidance should be read in conjunction with earlier FATF guidance and reports, as indicated in the guidance itself.

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