



## Wolfsberg Frequently Asked Questions ("FAQs") on Correspondent Banking

### Preamble

The Principles constitute global guidance on the establishment and maintenance of Foreign Correspondent Banking relationships, which if poorly controlled, can permit institutions and their customers with inadequate AML systems and controls direct access to international banking systems. The Wolfsberg Group believes that adherence to the Principles promotes effective risk management and enables institutions to exercise sound business judgment with respect to their Correspondent Banking Customers (referred to in these FAQs as "the Correspondent"), and furthers the goal of Wolfsberg Group members to endeavor to prevent the use of their institutions for criminal purposes.

To provide continuing guidance on money laundering controls in relation to Correspondent Banking, the Wolfsberg Group has prepared these FAQs, based on the Wolfsberg Group's views on current best practices and, in some aspects, on how the Group believes those practices should develop over time.

### 1. Why has regulatory and law enforcement scrutiny of Correspondent Banking continued to escalate?

Regulators and law enforcement continue to scrutinise due diligence and risk management practices in the Correspondent Banking arena due to the inherent risks associated with processing transactions for other financial institutions and their customers, as well as the documented cases in which Correspondent Banking accounts have been used to move illicit funds.

As noted in the Principles, in dealing with Correspondents, a Bank (referred to in these FAQs as the "Institution") is acting as its Correspondent's agent or conduit, executing and/or processing payments or other transactions for the Correspondent's customers. These customers may be individuals, legal entities or even other financial institutions, and the beneficiaries of the transactions may be customers of the institution or customers of other financial institutions.

The institution may have no direct relationship with the underlying parties to any transaction routed through it and, in such cases, may not be in a position to verify identity or to understand fully the nature of the specific transaction, particularly when processing electronic payments (wire transfers) or clearing cheques. The inter-relationships built up over decades between institutions within Correspondent Banking networks have produced a highly efficient mechanism which is of fundamental importance to the global economy. This mechanism facilitates the movement of money from one person or entity to another, and from one country to another, as well as currency conversion.

The efficiency of this important mechanism may also unintentionally facilitate the activities of those who seek to launder the proceeds of financial crimes or to finance terrorism and other unlawful activities. Recent law enforcement and regulatory actions have resulted in record-breaking financial penalties and have highlighted the vulnerabilities which financial institutions are exposed to when there are failures in the risk management framework, particularly in the areas of governance, client due diligence, risk assessment and transaction monitoring. Correspondent Bank accounts have been used to move the proceeds of drug trafficking, unlawful internet gambling and other crimes, to finance terrorism and to facilitate business with entities and individuals subject to economic sanctions. This misuse of the financial system highlights the need for proactive vigilance in maintaining an effective AML programme for Correspondent Banking and will surely result in continued heavy focus by regulators and law enforcement.

## **2. Why is it important to treat branches and subsidiaries of Correspondent Banking Clients as distinct customers subject to the Principles?**

Two key factors drive the need to apply the Principles to branches and subsidiaries of a Correspondent Banking Client: risk and regulatory requirements.

The risk factors that are applied to a Correspondent Banking Client need to be applied equally to their branches and subsidiaries because those entities may possess their own unique client, product and geographic risks. For example, a particular branch may target a high risk client segment or offer higher risk products; it may operate in a jurisdiction that is higher risk for corruption and money laundering and/or it may have been the subject of negative media in relation to its AML programme.

Additionally, the structure and execution of a particular subsidiary's AML programme may be impacted by local regulatory requirements and may vary based on the level of control and oversight exercised by the parent bank. For example, subsidiaries not wholly-owned by the Correspondent Banking Client may have other controlling owners and may operate under different AML standards. The net result is that the AML risk of a branch or subsidiary may differ from the overall assessed risks of the parent.

In a number of jurisdictions, regulations that set standards for client due diligence – Correspondent Banking or otherwise – treat each distinct account holder as a client for purposes of compliance with applicable requirements. To the extent that branches and

subsidiaries maintain their own accounts with the institution, they may then be subject to the regulatory requirements applicable to all account holders/customers.

### **3. Why is it important for a financial institution to treat its own branches and affiliates as distinct customers subject to the Principles?**

The inherent risks of Correspondent Banking do not differ when the service is offered to branches and affiliates. The drivers of applying appropriate due diligence to branches and subsidiaries of a Correspondent Banking Client described in response to Question 2 are relevant to an institution's sister branches and affiliates as well.

An institution's branches and affiliates may engage in businesses with client types that pose varying levels of risk and the branch/affiliate may operate in a jurisdiction that is higher risk for money laundering and corruption. Other risks to consider include the presence of additional controlling owners, differences in application of the Institution's AML programme and the existence of adverse information about the entity's AML controls. Adverse information, when considered in the context of an affiliated entity, may not be limited to information that exists in the public domain, as the Institution may be in possession of internal information which indicates that there is potentially heightened risk associated with a particular branch or affiliate receiving Correspondent Banking services.

Institutions providing Correspondent Banking services to branches and affiliates should ensure that the AML programme is designed to assess the risks of the client, using all relevant risk measures available within the institution and that appropriate levels of transaction monitoring and reporting of suspicious activity are in place.

### **4. Should Euro clearing relationships with European Union (EU) member banks be treated as Foreign Correspondent Banking relationships under the Principles?**

Yes, when an EU-based institution provides Euro-clearing services to other institutions within the EU, the institution should treat these customers as Foreign Correspondent Banking relationships. While these institutions share the same currency, they operate within different sovereign nations that may pose specific geographic risks. Additionally, notwithstanding the EU AML Directive, country specific regulation and the strength of the AML enforcement regime may vary between EU member countries. For these reasons, institutions need to ensure they apply the Principles to Correspondent Banking relationships with other EU member institutions.

### **5. Should relationships with Higher Risk Correspondents be avoided completely?**

No. It is not within the scope of The Wolfsberg Group's work to advocate a general avoidance policy with respect to relationships with Higher Risk Correspondents, although there are some relationships that should clearly be avoided. These include relationships with:

- shell banks. Institutions should also exercise care to ensure that they do not knowingly deal with financial institutions which themselves deal with shell banks;

- unlicensed and/or unregulated non-bank financial institutions such as remittance or exchange houses, casas de cambio, bureaux de change and money transfer agents or entities or persons effectively operating as such;
- any Correspondent where the results from conducting due diligence produce significant uncertainties that cannot be resolved, or;
- where the Correspondent's AML controls are considered inappropriate and/or insufficient and the Correspondent does not satisfy the Institution that necessary remedial action will be undertaken.

## **6. What is a payable through account and why are they considered high risk**

The 2012 FATF recommendations define the term *payable-through accounts* as correspondent accounts that are used directly by third parties to transact business on their own behalf. In other words, the institution providing the Correspondent Banking services allows its Correspondent Banking Clients' accounts to be accessed directly by the customers of that correspondent, e.g., the customers of the correspondent may have cheque writing privileges or otherwise be able to provide transaction instructions directly to the institution. This is different than a traditional Correspondent Banking relationship in which the Correspondent Bank is executing transactions on behalf of its customers.

The arrangements pose greater risk to an institution if it does not have access to information about the third parties accessing the account. Regulatory standards for managing the risks of payable-through arrangements may vary significantly by jurisdiction, but at a minimum, the institution providing such services should take additional steps to ensure that their Correspondent Banking Client has conducted sufficient client due diligence on its customers which have direct access to accounts of the Correspondent Bank, and that such information can be provided upon request. It may also be appropriate for the institution to conduct its own due diligence on the third parties.

## **7. What due diligence is required for SWIFT Relationship Management Application (RMA)?**

Where payment related information is exchanged or intended to be exchanged, institutions need to carry out a relevant level of risk based due diligence. Where an exchange of non-payment related information is intended, customer due diligence may be unnecessary. In the latter case, however, if the exchange of non-payment related information is with a correspondent that has an account or a client relationship with the institution, the relevant level of due diligence will be required.

Where SWIFT Relationship Management Application (RMA) Plus has been implemented and the functionality allows an institution to specify the types of SWIFT messages that its counterparty can send to it, the institution can choose to perform varying levels of due diligence based on the nature of the SWIFT relationship being established.

For further guidance, refer to the Wolfsberg Guidance on SWIFT Relationship Management Application (RMA) Due Diligence.

## **8. What is the purpose of the Wolfsberg Anti-Money Laundering Questionnaire?**

The Wolfsberg Anti-Money Laundering Questionnaire has been designed to provide an overview of a financial institution's anti-money laundering policies and practices. The Questionnaire requires an explanation when a "No" response is chosen (this does not imply that a "No" response is incorrect) and allows for an explanation when a "Yes" response is chosen. A copy of the Questionnaire can be downloaded from the Due Diligence Registry page on our website, [www.wolfsberg-principles.com](http://www.wolfsberg-principles.com).

Institutions may use the Questionnaire as part of their AML programme's due diligence requirements for a particular Correspondent, however, institutions are responsible for ensuring their AML programmes are designed to meet regulatory requirements/expectations and internal risk management standards, thereby determining the exact manner in which the Questionnaires are utilised in their AML programmes.