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FSB action plan to assess and address the decline in correspondent banking

Progress report to G20 Summit of July 2017

4 July 2017

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Executive Summary

A decline in the number of correspondent banking relationships remains a source of concern for the international community because, in affected jurisdictions, it may affect the ability to send and receive international payments, or drive some payment flows underground, with potential adverse consequences on international trade, growth, financial inclusion, as well as the stability and integrity of the financial system.

The Financial Stability Board (FSB) launched in November 2015 a four-point action plan to assess and address the decline in correspondent banking[1]. In March 2016, the FSB established the Correspondent Banking Coordination Group (CBCG)[2] to coordinate and maintain impetus in the implementation of the action plan in four areas:

- Further examining the dimensions and implications of the issue;
- Clarifying regulatory expectations, as a matter of priority, including guidance by the Financial Action Task Force (FATF) and the Basel Committee on Banking Supervision (BCBS);
- Domestic capacity-building in jurisdictions that are home to affected respondent banks;
- Strengthening tools for due diligence by correspondent banks.

This is the third progress report under the initiative, following those of August 2016[3] and December 2016[4].

The implementation of the action plan is making good progress. Notably, the FATF and BCBS have issued guidance to further clarify regulatory expectations, a growing number of technical assistance providers are participating in the FSB coordination framework, and work on the technical measures recommended by the Committee on Payments and Market Infrastructures (CPMI) to reduce the due diligence costs has progressed.

Alongside the current progress report, the FSB is also publishing a Correspondent Banking Data Report analysing the results of the FSB survey of over 300 banks in nearly 50 jurisdictions, and data update provided by the Society for Worldwide Interbank Financial Telecommunications (SWIFT). The decline in the number of correspondent banking

1 http://www.fsb.org/2015/11/report-to-the-g20-on-actions-taken-to-assess-and-address-the-decline-in-correspondent-banking/ of 6 November 2015.

2 The CBCG's membership comprises senior representatives from international organisations and standard setters and national authorities in the FSB and its Regional Consultative Groups.

3 August 2016 progress report to the G20 Leaders' Hangzhou Summit. See http://www.fsb.org/2016/08/progress-report-to-g20-on-the-fsb-action-plan-to-assess-and-address-the-decline-in-correspondent-banking/.

4 End-2016 progress report and next steps on the FSB action plan to assess and address the decline in correspondent banking, 19 December 2016, http://www.fsb.org/wp-content/uploads/FSB-action-plan-to-assess-and-address-the-decline-in-correspondent-banking.pdf.

relationships (CBRs) is continuing. It affects all regions to a varying degree and appears more pronounced for the US dollar and the euro. The decline generally does not result in a reduced number of wire transfers but may lead to longer payment chains, and a greater concentration where countries and banks rely on fewer CBRs. A range of reasons explain the terminations of CBRs, including industry consolidation, lack of profitability, the overall risk appetite, and various causes related to anti-money laundering and countering the financing of terrorism (AML/CFT) or sanctions regimes. The countries where banks are most affected by exits of foreign correspondent banks tend to be small economies or jurisdictions for which the compliance with AML/CFT standards is insufficient or unknown. It is too early to tell what the effects of measures taken so far will be, and to what extent they will stem the decline.

Work therefore needs to continue:

- The monitoring of trends at the global level and of the impact on jurisdictions still needs to be improved, which calls for further work to establish a sustainable framework for the ongoing monitoring of trends in correspondent banking relationships.
- The new FATF and revised BCBS guidance should be followed up by statements at the national level by national regulators to clarify expectations at the national level, so that they are appropriately reflected in supervisory practices and banks' risk management practices; FATF and BCBS will monitor progress in this regard. In addition, FATF will finalise its work on information sharing, including a guidance paper on *Private sector information sharing,* expected to be finalised by the end of 2017.
- Technical assistance providers need to continue to coordinate help to affected jurisdictions to improve their AML/CFT frameworks, and strengthen their supervisory capacity. Countries should be encouraged to effectively communicate improvements, to build confidence in their AML/CFT frameworks. In this regard, the commitment by the G7 to coordinate and improve the delivery of technical assistance is a positive step. Other national authorities should also consider strengthening their support for technical assistance.
- Technical solutions such as Know Your Customer (KYC) utilities have the potential to assist in conducting due diligence and reduce compliance costs. There seems to be momentum within the private and public sectors to develop such utilities. But, to achieve these benefits, the challenges associated with standardisation, governance and the degree to which supervisors allow reliance on KYC utilities need to be addressed.
- Despite efforts by the international community, difficulties for remittance providers in accessing banking services persist. Work on this issue has been underway for some time in a number of fora, including the FATF and the Global Partnership for Financial Inclusion (GPFI). The FSB has been asked by the G20 Presidency to take stock of initiatives to address the challenges that remittance providers face, explore if there are remaining issues that are not already being dealt with through existing initiatives in consultation with the private sector, and evaluate the need for an action plan to address these gaps. The FSB, working with GPFI and FATF will hold a high-level meeting of the public and private sectors in the margins of the October 2017 IMF-World Bank Annual Meetings to discuss the evidence from the stock-take.

The FSB will publish its next progress report in December 2017.

The other actions taken since December 2016 include:

Data collection and analysis

- The FSB has agreed with SWIFT an arrangement under which SWIFT will provide six-monthly data updates until at least end-2018, thereby expanding the data set beyond the years 2011-2015 analysed by CPMI in its 2016 report on correspondent banking.[5] In addition, the FSB is also continuing its discussions with SWIFT on the regular provision of an enhanced data set to monitor future trends.

- The International Monetary Fund (IMF) has deepened its research on the likely impact of CBR withdrawal and assessed measures to address the issue, and policy measures to support its surveillance work and enhance its dialogue with affected jurisdictions. The results are documented in its report published in April 2017, "*Recent Trends in Correspondent Banking Relationships – Further Considerations*".[6] In March 2017, the World Bank initiated the field work for country studies in emerging markets as a complement to the FSB survey. The objective is to provide more insight into the further effects on financial inclusion and other activities relevant to emerging markets (e.g. trade finance) resulting from the termination of business relationships with various types of customers, such as humanitarian organizations and remittance companies.

Clarifying regulatory expectations

- The BCBS published in June 2017 the final version of its revised guidance on correspondent banking.[7] This document takes into account the FATF's work, and provides additional guidance in areas such as clarifying supervisory expectations regarding the quality of payment messages and the appropriate use of KYC utilities to avoid unnecessary duplications in conducting due diligence.

- FATF decided at its June 2017 Plenary meeting that there will be no further work on the definition of correspondent banking by FATF given the lack of consensus by industry and the authorities about the benefits at this time of a change of definition, but will specifically consider as part of future work on the transmission and traction of FATF guidance what further action might be needed in this area.

- The Wolfsberg Group, whose membership comprises major global correspondent banks, is finalising a revised and expanded "Anti-Money Laundering Questionnaire" to outline a reasonable set of questions which a correspondent bank asks of its respondents and which could serve as a basis for the standardisation of the content held in KYC utilities.

- Also, the Wolfsberg Group, as part of its contribution to private sector capacity building, is planning outreach activities to encourage the use of its questionnaire, once it has been published.

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5 http://www.bis.org/cpmi/publ/d147.htm

6 http://www.imf.org/en/Publications/Policy-Papers/Issues/2017/04/21/recent-trends-in-correspondent-banking-relationships-further-considerations, 21 April 2017

7 http://www.bis.org/bcbs/publ/d405.htm

Domestic capacity building

- The FSB is publishing today a suggested framework (both in terms of contents and modalities) of a communication strategy that jurisdictions could follow, to facilitate the strengthening among key stakeholders of trust, by communicating the steps taken to strengthen their AML/CFT frameworks and the quality of their supervision of financial institutions.[8]
- The CBCG inventory of technical assistance continues to be expanded and improved with the support of the IMF. In the margins of the October 2017 IMF-World Bank Annual Meetings, the CBCG will hold a workshop for technical assistance providers to share lessons learned from capacity-building activities and discuss the prioritisation and coordination of their capacity-building activities within their respective mandates.
- The FSB enhanced its public website to include a specific page on correspondent banking matters, to act as a centralised source of relevant public information.

Strengthening tools for due diligence by correspondent banks

- The CBCG continued its work on KYC utilities and standardisation of information held in such utilities and, together with BCBS and CPMI, held a workshop with industry stakeholders in Paris in March 2017. Such standardisation, together with the clarification by BCBS of regulatory expectations, will support increased use of these utilities to save costs and increase the efficiency of due diligence.
- The BCBS/CPMI/FSB March 2017 workshop also discussed efforts to improve the quality of payment messages, which is instrumental in preserving trust by correspondent banks in the information provided by their respondent banks. SWIFT's Payment Markets Practice Group (PMPG) published in June 2017 revised guidelines on the correct use of payment messages.
- The BCBS/CPMI/FSB March 2017 workshop also discussed the benefits of including the LEI[9] on an optional basis in payment messages to support the identification of originators and beneficiaries and due diligence. However, before incurring the costs of adding the LEI to payment messages, the industry seeks sufficient assurance that the LEI will effectively be used for a significant proportion of transactions.
- The Global Legal Entity Identifier Foundation (GLEIF) and SWIFT are continuing the development of an initial BIC[10]-to-LEI mapping table, as a contribution to streamlining due diligence and will report to CPMI and CBCG on progress by October 2017.

Access of remittance providers to banking services

- At the request of the G20, the FSB, FATF and Global Partnership for Financial Inclusion (GPFI) held meetings in March 2017 in Vienna with representatives from the banking

[8] See Annex.

[9] More generally, the Global LEI System started collecting in May 2017 information on parent entities, which could be used by banks to exchange with each other information on their group structures.

[10] Business Identifier Code. The BIC is used to identify banks in correspondent banking messages, but for historical and other reasons, a bank may have several BICs. The LEI is a unique identifier for legal entities.

sector and remittance providers, to discuss issues relating to remittance providers' access to banking services.

– Following those meetings, the G20 Presidency asked the FSB to coordinate further work with the FATF and GPFI on identifying and addressing issues relating to remittance providers' access to banking services and to report back by the Leaders' Summit in July 2017. The FSB has agreed to set up a task force to take stock of past and ongoing initiatives and explore whether there are remaining issues relating to remittance providers' access to banking services that are not already being dealt with through existing initiatives in consultation with the private sector, and, if these are identified, evaluate the need for an action plan to address them. An exploratory work plan for the task force is set out in section 5 of this report.

1. Data collection and analysis to further examine the dimensions and implications of the issue

The CBCG has established a workstream to identify the remaining gaps in knowledge about the decline in correspondent banking, its causes and its effects, determine the feasibility of developing a global framework for more systematic data collection at the country level and a more effective capacity to monitor trends at the global level, beyond ad hoc surveys.

A. Correspondent Banking Data Report published by the FSB

Between September 2016 and May 2017, the FSB conducted a one-off survey of national authorities and over 300 banks in nearly 50 jurisdictions to collect additional information. In addition, in January 2017, SWIFT provided an aggregated and anonymised updated dataset on correspondent banking activity covering six years from 2011 to 2016, which was analysed by the National Bank of Belgium on behalf of the CBCG workstream on Data Collection and Analysis. Alongside this progress report, the FSB is publishing a Correspondent Banking Data Report, analysing these two data sets.[11]

In addition, the FSB is also continuing its discussions with SWIFT on the regular provision of an enhanced data set to monitor future trends.

The main findings of the Correspondent Banking Data Report are as follows:

Both the CBCG survey and SWIFT data show that the decline in the number of CBRs continued in 2016. According to SWIFT data, between the beginning of 2011 and end-2016, the number of active corridors decreased by 6.3% and the number of active correspondents by 6% across all currencies. For both the US dollar and the euro, the number of active correspondents decreased over that same period by around -15%.

Over the 6 year period between 2011 and 2016, the number of active correspondents, as measured by SWIFT message traffic, follows a downward trend for most regions. The most affected regions, in terms of the percentage change in the number of active correspondents are Eastern Europe (-16%), followed by Europe excluding Eastern Europe (-15%), Oceania (-12%), and the Americas excluding North America (-8%). However, the reduction of CBRs in Europe reflects for a large part the use of European-wide payment systems and the consolidation of the banking sector following the global financial crisis.

In 2016, the Caribbean and the small states of the Pacific (Melanesia, Micronesia and Polynesia) are the four sub-regions with the highest rates of declines, close to or above 10%.

An important objective of the CBCG survey was to identify potential vulnerabilities, notably where, as a result of the decline, countries or banks depend on a small number of correspondent banks for their access to the international financial system. At the country level, the average number of surveyed banks serving a country has declined by 9.6% to 16 banks from January 2011 to June 2016. At the bank level, the CBCG survey shows that 45% of surveyed banks reported relying on two or fewer correspondents for more than 75% of the value of wire transfers sent or received as of June 2016; these were mostly small and medium banks in terms of their assets, and were more vulnerable to restrictions.

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[11] http://www.fsb.org/wp-content/uploads/P040717-4.pdf, 4 July 2017.

Providers of correspondent banking services are concentrated in North America, Europe and East Asia & Pacific. Other regions appear to be only marginal providers. Based on the CBCG survey, the provision of these services by banks in East Asia & Pacific is continuing to grow at a modest pace, but correspondent banking services in this region are mostly in the domestic currency of the provider and these providers did not replace in any significant number the reduction in accounts in USD and EUR from North America and Europe.

At the global level, the decline in the number of active correspondents has not resulted in a lower number of payment messages (volume) or a lower underlying value of the messages processed through SWIFT. On the contrary, the number of payments has increased between 2011 and 2016 by 36%. However, the increase in the number of messages may not reflect an increase in the number of actual wire transfers between customers, but a lengthening of payment chains.

The CBCG survey also examined the drivers of the reduction in the number of CBRs. On average small economies are the most affected by the reduction in the number of foreign correspondent banks serving banks in their countries. This may suggest that the absence of a sufficient volume of business may deter correspondent banks, given the fixed costs associated with opening and maintaining a relationship. The level of compliance with the FATF standards in a given jurisdiction, or the absence of information on such compliance, appears to also have an impact on the average proportion of correspondent banks that exited that jurisdiction between January 2011 and June 2016.

The CBCG survey also asked banks to quantify the number of exits that could be attributed to different drivers. The different drivers are generally intertwined, and a combination of causes may explain the same termination. This being said, business reasons not directly related to the costs of the terminated relationship (such as changes to the business model or business strategy, the termination of dormant relationships or industry consolidation) are the primary drivers cited by both correspondent and respondent banks.

Regarding how authorities have addressed the decline in correspondent banking, the CBCG survey shows that measures taken are predominantly oriented to address AML/CFT concerns, mainly by implementing or enhancing their AML/CFT legal framework, harmonizing the domestic regulation with international standards and recommendations, as well as making information requirements more stringent.

In sum, The Data Report shows that the decline of CBRs is a global phenomenon, even though it affects regions with varying intensity. This general trend increases concentration in the correspondent banking market, which could lead to structural instabilities in the payment traffic of affected jurisdictions, which is why the CBCG is further addressing the issue.

B. Ongoing monitoring of trends in correspondent banking

An essential element of the FSB four-point action plan on correspondent banking is to develop a global framework for more systematic, regular data collection at the country level and a more effective capacity to monitor trends at the global level, beyond ad hoc surveys. This will assist in better understanding the causes and effects of the decline, to ensure that actions to address the decline are well targeted, and to monitor their effects. In developing such a framework, the objective is to limit the duplication of efforts and rely as much as possible on existing data. Data will be sought on a voluntary basis.

As SWIFT is the most commonly used standard for cross-border payments, SWIFT captures a meaningful amount of correspondent banking activity. Therefore, with the support of the Bank for International Settlement (BIS) Economic Consultative Committee, the FSB initiated in 2016 discussions with SWIFT and the National Bank of Belgium, as overseer of SWIFT, on the role they could play in supporting the monitoring of trends in correspondent banking.

As a result of these discussions, SWIFT has provided in January 2017 an update, as of end-2016, of the aggregated and anonymous dataset on correspondent banking activity that was provided to CPMI for its report of July 2016. SWIFT has also agreed to provide further updates each six months until the provision by end-January 2019 of end-2018 data.

Regular updates of data for values and volumes of correspondent banking activity and numbers of active correspondents at a country level will be important to be able to monitor changes over time. The CBCG is also seeking a way to show regularly the extent of concentration in the correspondent banking market at country level, which is important for monitoring financial stability risks by providing indicators of the fragility of the correspondent banking networks in individual countries and regions.

The December 2016 progress report noted that the FSB and SWIFT would set out a process and scope of data for the ongoing monitoring of trends in correspondent banking. Following the FSB's analysis of the end-2016 SWIFT data and of the data collected in the FSB's own survey, as described in the December progress report, the FSB and SWIFT, together with the National Bank of Belgium and CPMI, will assess the possibility to make available certain additional anonymous and aggregated data to enable the monitoring of trends in correspondent banking.

C. Other analyses of correspondent banking

As envisaged in the action plan for 2017, the World Bank and IMF deepened their analyses of the decline in correspondent banking relationship, especially by looking at individual countries.

The World Bank initiated in March 2017 the field work for a few country studies in emerging markets as a complement to the FSB survey. The objective is to provide more insight into the further effects on financial inclusion and other activities relevant to emerging markets (e.g. trade finance) resulting in financial institutions' termination of business relationships with various types of customers, such as humanitarian organisations and remittance companies. The World Bank will synthesise the collection of country studies for a policy paper to be released this autumn. In addition, the World Bank plans to host a forum in the margins of the IMF-World Bank Annual Meetings in October, to present the findings of this work and discuss possible policy solutions.

The IMF deepened its research on payments flows to support its surveillance work and enhance its dialogue with affected jurisdictions. The IMF published in April 2017 a report titled "*Recent Trends in Correspondent Banking Relationships – Further Considerations*". At the global level, the IMF relied primarily on the analysis of the country data covering 2011-2015 published by the CPMI in July 2016, and compared it with other data series. The IMF also conducted country-specific analyses, including through its surveillance of member countries.

2. Clarifying regulatory expectations

The action plan includes the clarification of regulatory expectations, including more guidance from the FATF in the area of correspondent banking, in cooperation with the BCBS Anti-Money Laundering and Countering of Terrorist Financing Expert Group (AMLEG). To this end, the CBCG has established a workstream to support a coherent and consistent clarification of expectations and support common understandings amongst relevant agencies, supervisory staff and banks, both nationally and internationally.

A. Clarification of regulatory expectations by FATF

The FATF published in October 2016 its guidance on correspondent banking.[12]

As mentioned in the previous progress report, the guidance clarified that the FATF Recommendations do not require financial institutions to conduct customer due diligence on the customers of their customer (KYCC). In cases where there is any unusual activity or transaction on the part of the respondent, or any potential deviations from the agreed terms of the arrangements governing the CBR, the FATF noted that, in practice, 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.

The guidance also highlighted that not all CBRs carry the same level of money laundering (ML) or terrorist financing (TF) risk, hence any enhanced due diligence measures have to be commensurate with the identified risk. The focus of the FATF guidance is CBRs that are higher risk, in particular cross-border CBRs involving the execution of third party payments. The FATF also clarified that correspondent banking does not include one-off transactions or the mere exchange of messaging capabilities in the context of non-customer relationships, but rather is characterised by its ongoing, repetitive nature.

The FATF decided at its June 2017 Plenary meeting that there will be no further work on the definition of correspondent banking by FATF given the lack of consensus by industry and the authorities about the benefits at this time of a change of definition, but will specifically consider as part of future work on the transmission and traction of FATF guidance what further action might be needed in this area. FATF will focus on better understanding how its guidance is used by national authorities and the impact of this on financial institutions. This work will focus on the risk-based approach guidance for MVTS and on correspondent banking relationships, and it will be done in cooperation with the BCBS.

At its June 2017 Plenary, the FATF also discussed progress on guidance for private sector information sharing, expected to be finalised by the end of 2017. Better information sharing can support more effective due diligence in correspondent banking as discussed in section 4.A.3) of this report, however, the scope of the FATF work on information sharing is much broader.

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[12] http://www.fatf-gafi.org/media/fatf/documents/reports/Guidance-Correspondent-Banking-Services.pdf.

B. Clarification of regulatory expectations by BCBS

The BCBS published on 7 June 2017 the final version of the revision of its guidance on correspondent banking.[13] The purpose of the revisions is to clarify further supervisory expectations with regard to managing AML/CFT risks associated with correspondent banking in a manner consistent with FATF standards. The revisions guide the banks in the application of the risk-based approach for correspondent banking relationships, recognising that not all CBRs bear the same level of risk and including an updated list of risk indicators that correspondent banks should consider in their risk assessment.

The BCBS guidance also includes an updated list of risk indicators that correspondent banks should consider in their risk assessment of the money laundering/terrorism financing (ML/TF) risks associated with correspondent banking activities; for instance, the expectation that a correspondent should consider the "customer base" of the respondent, including "its customers and their location" and the "ability to obtain [from the respondent the] identity of any third-party entities that will be entitled to use the correspondent banking services" was replaced with a recommendation to consider as risk indicators the "overall types of customers served in key business lines" and the "ability to obtain information on a particular transaction as specified in paragraphs 32–33 of the FATF guidance", which describes requests for information. The revisions should help clarify that there is no expectation that correspondents conduct customer due diligence on the customers of their customer. In addition, the recommendation to consider the reputation of the respondent, including civil, administrative or criminal actions/sanctions (fines, blame, etc.) that have been taken against the respondent by any court or supervisory authority, was complemented by a recommendation to also take into account the severity of the action or sanction, and how the respondent addressed the identified shortcomings.

The BCBS considerably expanded the guidance on nested CBRs with the addition of a new section. Nesting, or "downstream clearing", is the situation where the services of the correspondent bank are used by the respondent bank to provide correspondent services to other banks. Preserving a healthy downstream clearing framework allows for regional banks to serve as intermediaries for smaller local banks to access the international financial system, as they may be better placed to conduct more cost-efficient due diligence on those banks. In line with the FATF guidance, the BCBS clarified that while this arrangement can obscure financial transparency and increase ML/TF risks, downstream CBRs are an integral and generally legitimate part of correspondent banking, provided certain conditions are met. For instance, respondent banks should disclose whether accounts include nested relationships[14] as part of account opening and ongoing risk profile reviews.

The FATF noted in its October 2016 guidance on correspondent banking that potential sources of information on the level of risks included "reputable […] third party databases." The revised BCBS guidance also supports increased efficiency in information-gathering, with additional details compared to the FATF document. A new section on this topic states that "*Information on a respondent bank's AML/CFT policies and procedures may be obtained from the respondent bank, for example via a questionnaire, or from publicly available information (such as financial information or any mandatory supervisory information relating to the respondent*

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[13] http://www.bis.org/bcbs/publ/d405.htm

[14] This does not entail that a list of the nested relationships should be produced.

bank). An industry-wide questionnaire may be useful, provided it is used as a starting point for the risk assessment." The guidance also specifies that "*At account opening, banks may collect – and subsequently update – respondent banks' information by using third-party databases that contain relevant information on banks (often referred to as "KYC utilities"). KYC utilities may provide efficiency gains for both correspondent and respondent banks to gather and provide information, especially with regard to standardisation and interoperability (e.g. ability of different systems to share data). […] If banks see benefits in using KYC utilities for obtaining information from the respondent bank, supervisors see in principle no objection to the use of utilities in the correspondent banking risk assessment processes, provided the conditions and factors described [in the guidance] are met and the final responsibility for CDD remains with the correspondent.*"

The BCBS also clarified supervisors' expectations regarding the quality of payment messages, including the development and implementation of appropriate policies, procedures and processes in their respective capacities as originator banks, intermediary banks and beneficiary banks. The role of supervisors, which applies to correspondent banking as in other areas, is described in the existing BCBS *Guidelines on Sound management of risks related to money laundering and financing of terrorism*. For instance, supervisors should implement a risk-based approach to supervising banks' ML/TF risk management, and evaluate the internal controls in place and how banks determine whether they are in compliance with supervisory and regulatory guidance, and prescribed obligations. The supervisory process should include not only a review of policies and procedures but also, when appropriate, a review of customer documentation and the sampling of accounts and transactions, internal reports and suspicious transaction reports.

C. Other measures to clarify regulatory expectations

At the Private Sector Consultative Forum organised by the FATF in Vienna in March 2017, most industry representatives noted that although the new FATF guidance on correspondent banking was very helpful, in most cases it had not yet prompted competent national authorities to change their guidance, or banks to change their policies. With the finalisation in June 2017 of efforts to clarify expectations at the international level, national authorities are encouraged to clarify regulatory expectations at the national level, taking into account the new FATF guidance and revised guidance by BCBS. To that end, the FSB CBCG will continue to support sharing "best practices" for reaching a common understanding on guidance, either nationally or internationally, amongst relevant agencies, supervisory staff and banks, and supporting the clear, consistent and coherent implementation of the new guidance or resulting policy actions. Outreach activities, including TA and capacity building as part of the FSB action plan described in section 3, should be informed by the new guidance.

The CBCG included, as part of its 2016 survey on correspondent banking, a questionnaire to national authorities on measures taken by authorities to address or prevent the decline in correspondent banking services provided or received by banks in their jurisdictions, which preceded the finalisation of international guidance (see the Correspondent Banking Data Report for more details). The FSB progress report of December 2016 noted the national clarifications issued in the United States.[15]

The CBCG also discussed the importance of assessing how the new FATF guidance and the revised BCBS guidance have assisted in addressing correspondent banking issues. To that end, CBCG discussed different approaches and timing for monitoring by FATF and BCBS of the implementation of their respective guidance. The FATF decided at its Plenary meeting of June 2017 that it will look at the use being made of its guidance by national supervisors and the financial sector. The CBCG will discuss progress on this subject further at its next meeting.

As noted in previous reports[16], because of the potential role of uncertainty over regulatory expectations related to economic sanction regimes in the decline in correspondent banking, relevant national authorities are encouraged to issue guidance, or continue to issue guidance, on their national or regional sanction regimes, and engage with interested parties, to support clarity in the implementation of these sanction regimes in correspondent banking.

There are also efforts in the private sector by the Wolfsberg Group to add clarity to the general expectations about the information to be collected by correspondent banks from their respondents as part of their due diligence process. Specifically, the Wolfsberg Group is finalising the revision of its Anti-Money Laundering Questionnaire, which acts as an aid to financial institutions' customer due diligence. The revisions were undertaken to take into account changes in regulatory requirements, expectations and practice in the industry and were designed to add clarity and support the standardisation of due diligence information for correspondent banks. The number of questions has been expanded, with multiple sub-questions, setting out information to be collected and a standard for reasonable correspondent banking due diligence.

3. Domestic capacity-building in jurisdictions that are home to affected respondent banks

Jurisdictions exited by correspondent banks are often those with actual or perceived weaknesses in their supervisory and regulatory frameworks, including frameworks for compliance with AML/CFT standards. Concerns about weaknesses in respondent banks' risk management practices also can play a central role. Correspondent banks have pointed out that the business costs and risks associated with meeting AML/CFT or sanctions requirements with respect to particular jurisdictions or banks may be important drivers in their decisions to terminate CBRs.

The third element in the FSB action plan supports coordination of domestic capacity building to improve and build trust in the supervisory and compliance frameworks of affected

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[15] Joint Fact Sheet on Foreign Correspondent Banking: Approach to BSA/AML and OFAC Sanctions Supervision and Enforcement (August 30, 2016): https://www.treasury.gov/press-center/press-releases/Documents/Foreign%20Correspondent%20Banking%20Fact%20Sheet.pdf. Office of the Comptroller of the Currency: Risk Management Guidance on Periodic Risk Re-evaluation of Foreign Correspondent Banking, OCC Bulletin 2016-32 (Washington, DC), October 5, 2016: https://www.occ.gov/news-issuances/bulletins/2016/bulletin-2016-32.html.

[16] Progress reports of August 2016 (http://www.fsb.org/2016/08/progress-report-to-g20-on-the-fsb-action-plan-to-assess-and-address-the-decline-in-correspondent-banking/) and December 2016 http://www.fsb.org/2016/12/fsb-action-plan-to-assess-and-address-the-decline-in-correspondent-banking/.

jurisdictions. Capacity building activities necessarily go beyond strengthening the legal and institutional frameworks, to include strengthening authorities' institutional capacity to implement their frameworks. Capacity building therefore includes a wide range of TA and other activities, such as: drafting legislation and subordinate regulations, and supervisory guidelines/manuals; hands-on training of supervisory staff on how to monitor AML/CFT standards and for general supervision of financial institutions; training of law enforcement on how to investigate money laundering or large-scale corruption and assisting countries in conducting self-assessments of their AML/CFT risk management framework and tools. Stronger supervision of financial institutions in the impacted jurisdictions where respondent banks are located may encourage correspondent banks to retain or re-open correspondent banking relationships and reduce the negative impacts of any changes in access to such relationships. Moreover, for capacity building measures to succeed, the political will to both implement recommended measures and take ownership publicly of weaknesses and improvements made is essential.

Coordination among FSB members and other official sector bodies of their capacity-building work assists in efficient prioritisation of that work to jurisdictions according to the jurisdiction's willingness to adopt and implement reforms as a result of assistance, vulnerability to loss of correspondent banking services, identified weaknesses in frameworks and the jurisdiction's institutional capacity.

It is also important that capacity building within the official sector is complemented by and coordinated with private sector initiatives through which correspondent banks support improvements at respondent banks in affected jurisdictions or better explain how respondents can proactively avoid account closures and service restrictions. The FSB is therefore working with banking industry representatives to discuss the contributions that can be made by private sector initiatives and potential synergies between public and private sector initiatives, as described further below.

A. Assessment of weaknesses and TA by the official sector

As reported in the August 2016 FSB progress report to the G20[17], to help with the coordination of capacity building, the CBCG has established an inventory of TA and other capacity building activities provided by the official sector. This includes capacity building activities of the IMF, World Bank, European Bank for Reconstruction and Development, Inter-American Development Bank (IADB), the US Office of the Comptroller of the Currency (OCC) and the US Department of the Treasury (US Treasury) and other public sector providers. In the first half of 2017, the inventory has been augmented by information from other national authorities, regional bodies, and international organisations, including the Asian Development Bank (ADB), the FATF Global Network Coordination Group, FATF-style Regional Bodies (FSRBs), the Global Center on Cooperative Security and the United Nations Office on Drugs and Crime (UNODC). The inventory now covers more than 300 TA projects on AML/CFT and general financial supervision, provided to over 140 countries.

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[17] http://www.fsb.org/wp-content/uploads/Correspondent-Banking-progress-report.pdf

This inventory is appreciated by those public sector bodies involved in capacity building because of the unique global view it provides of much of the TA taking place that is relevant to the correspondent banking issue.

Moreover, the CBCG has also invited all FSRBs, the UNODC and the EU, DG Development and Cooperation to become members of the workstream involved in the CBCG work for domestic capacity building. This should enhance the FSB's dialogue with public sector TA providers and strengthen coordination activities; and through efforts, support a more robust discussion of capacity building priorities, overlaps and potential gaps in the provision of TA.

The CBCG's role in capacity building includes assessing the excess of demand over supply, so that the FSB can consider whether to recommend that increased resources be mobilised to assist jurisdictions in cases where it is needed and can be effectively used. The inventory of ongoing TA projects shows both that TA demands are not fully met and at the same time some duplication may exist. This analysis suggests that both additional resources for TA projects and better coordination of TA provider efforts are required. At the same time, there are currently challenges in specifically determining the amount and type of additional resources required. In particular, to meet remaining capacity building needs, it would be necessary to obtain additional granular information on existing capacity building activities, and to share more information on individual jurisdictions' TA requests and on the availability and/or restrictions on funding sources. It is recognised that each TA provider and donor has its own institutional constraints, and set of policies and criteria for determining which capacity building projects to undertake. It is also recognised that TA will be appropriate only where a jurisdiction demonstrates willingness to adopt and implement reforms as a result of assistance.

National and multilateral institutions provide critical TA and training activities to jurisdictions and sectors, including to those that have been affected by or are concerned with the withdrawal of correspondent bank relationships. The CBCG Workstream 3 is preparing a workshop to bring together relevant public sector TA sponsors/providers to share lessons learned from TA delivery, explore ways to meet global TA demands and develop sustainable mechanisms for coordination among TA providers with a view to more effectively provide assistance to affected jurisdictions. The main topics to be discussed during the workshop include: (a) factors and obstacles to successful TA delivery; (b) skills and structures that could help jurisdictions retain or expand CBRs; (c) gaps in TA provision; and (d) mechanisms to enhance coordination, prioritization and coverage of TA projects. The workshop will be a closed-door event featuring moderated panel discussions, and will take place in the margins of the October 2017 IMF-World Bank Annual Meetings in Washington DC

The OCC has reserved slots for foreign supervisors from affected jurisdictions to attend its annual AML/CFT training in July 2017. The IMF will continue to follow a multipronged approach endorsed by its Executive Board to support member countries in addressing issues arising from the withdrawal of CBRs in coordination with the FSB, multilateral development banks and other stakeholders. The IMF's capacity development could be offered to individual countries or on a regional basis.[18]

[18] At the country level, the CBR capacity development program would follow a sequenced and targeted approach. At the regional level, the IMF could deliver capacity development focusing on regional responses and initiatives, especially in cases where CBR withdrawal has been more acute in regions where some of the drivers are common across several countries.

B. Encouraging training or assistance provided by private sector initiatives

1) Private sector initiatives on capacity building

The FSB is encouraging the banking industry to complement official sector work through their own voluntary capacity building initiatives. For instance, correspondent banks can support improvements at respondent banks, including by helping to identify what measures respondents could proactively undertake in order to avoid account closures or service restrictions. CBCG has established an ongoing dialogue with the Wolfsberg Group, an industry body whose membership is comprised of major global correspondent banks. The Wolfsberg Group, as part of its contribution to private sector capacity building, is planning outreach activities to encourage the use of its revised questionnaire once it has been published (cf section 2). The CBCG will explore further the role of the private sector and discuss avenues to engage correspondent banking community on ongoing TA projects.

2) Dialogue between the public and private sector on capacity building

The FSB and its members, as well as FSB Regional Consultative Groups, and TA providers continue to engage in a range of global and regional dialogues with correspondents and respondents. In addition, CBCG members also hold bilateral and multilateral meetings (for instance meetings organised by the US authorities with banks and authorities of specific countries or regions), which help to foster a mutual understanding of the issues and develop responses.

The IMF organised in February 2017 a closed-door roundtable bringing together global correspondent and respondent banks, and other stakeholders to discuss practical and actionable regional solutions to CBR withdrawal in the Caribbean. The roundtable, hosted by the Caribbean Development Bank (CDB), presented an opportunity for banks to share their experiences and discuss the feasibility and impact of industry-led solutions to address CBR issues.

A number of other private-public sector meetings have also taken place in recent months across the affected regions, for instance sessions on correspondent banking and remittances at the FSB Regional Consultative Group meeting for the Middle East and North Africa in Riyadh on 15 May 2017. Meetings dedicated to remittances are described in section 5.

3) Developing proposals on actions national authorities can take to build trust in their AML/CFT frameworks and quality of supervision.

The more national authorities build trust in their supervisory and AML/CFT frameworks and in the quality of their supervision, the more foreign correspondent banks will be able to rely on the information they provide without multiplying costly due diligence and checks. FATF mutual evaluations and FSAPs can help in this regard, but it is ultimately for each jurisdiction to develop action plans as necessary; to strengthen their AML/CFT and supervisory frameworks and achieve their effective implementation, and to communicate their successes in these areas.

The FSB is publishing today in an annex of this report a suggested framework that jurisdictions could follow to build trust by communicating concrete actions taken—including implementation of relevant reforms—to improve their AML/CFT frameworks and the quality of their supervision of financial institutions. Effective and consistent communications require collaborative efforts involving all relevant domestic regulatory and supervisory stakeholders. The modalities for communicating steps taken by domestic authorities should be tailored to the intended target audience. Such communications serve as pre-emptive measures, to address potential or actual risks to accessing correspondent banking services. The IMF's April 2017 Board Paper on correspondent banking also highlights the importance of good outreach and communication by jurisdictions impacted by the withdrawal of correspondent banking services.[19]

International organisations are also helping to build trust by disseminating information on their capacity building activities, on the assessments of jurisdictions' degree of compliance with AML/CFT and supervisory standards and through surveillance reports and other studies that report on the steps being taken by jurisdictions. For example, IADB has an Annual Report for TA projects under the Transparency Trust Fund.

The CBCG will further support the communication of information on correspondent banking matters through the FSB website.

4. Strengthening tools for due diligence by correspondent banks

The mandate of FSB CBCG workstream 4 includes supporting the implementation of the recommendations in the CPMI report on correspondent banking of July 2016. The report included a package of measures that could help improve the efficiency of due diligence procedures, reduce compliance costs and help address perceived uncertainty, without altering the applicable rules and the basic channels for correspondent banking between correspondent and respondent banks.[20]

The FSB and CPMI are jointly supporting and monitoring the implementation of the recommendations in the CPMI report, which require ongoing cooperation by a number of public sector and private sector bodies. To that end, BCBS AMLEG, CPMI Working Group on Correspondent Banking and Workstream 4 of the FSB CBCG organised a workshop in Paris in March 2017 to discuss the use of KYC utilities for correspondent banking due diligence, the quality of payment messages and the use of the LEI in correspondent banking. Key industry stakeholders participated in the workshop, including the Wolfsberg Group, PMPG, the International Standardization Organisation, the Global LEI Foundation and several KYC utilities.

In addition to the CPMI recommendations, other technical solutions addressing or offsetting the reduced availability of correspondent banking are also being proposed, including how technological innovations, such as big data and machine learning, might be usefully applied in generating and analysing information and facilitating due diligence processes.

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[19] Recent Trends In Correspondent Banking Relationships—Further Considerations, page 30 (http://www.imf.org/en/Publications/Policy-Papers/Issues/2017/04/21/recent-trends-in-correspondent-banking-relationships-further-considerations).

[20] http://www.bis.org/cpmi/publ/d147.htm

A. Progress in the implementation of CPMI recommendations and next steps

1) Recommendation on the use of "know your customer" (KYC) utilities:

The CPMI had identified two steps to be taken concerning KYC utilities: clarifying regulatory expectations concerning their use, and standardising the information and data they contain. Participants in the March 2017 industry workshop discussed the potential these utilities offer in the area of correspondent banking for cost savings and increased efficiency of due diligence based on the collective expertise brought by utilities in a wide range of jurisdictions and by reduced duplication. Participants agreed that the business case seems strong enough for their expansion, provided there is sufficient clarity on regulatory expectations, regulatory support for their usage and standardisation.

The publication of the final version of the revised guidance on correspondent banking by BCBS on 7 June 2017, which completed the clarification of supervisory expectations regarding correspondent banking at the international level, includes guidance on what banks should consider when determining the extent to which they can use KYC utilities to support due diligence.

As regards the second step, participants in March workshop discussed how the revision of the Wolfsberg Group's "Anti-Money Laundering Questionnaire" (see section 2.c) could support the standardisation of the content of the information to be included in KYC utilities.

Participants in the workshop also examined how ISO could standardise the format of the data in these utilities. Participants discussed that there could be two main avenues: create a new standard, which takes an estimated three years given the staged review process, or rely on an existing standard, for instance ISO 20022. The second option would be faster and appeared more promising although further work will be required to understand the detail of either option.

As a next step, it was agreed that another joint workshop with industry stakeholders will be held around September 2017 to draft the business request that would formalise the baseline industry agreement on a standardised minimum set of information and data that all KYC utilities should gather and store, in order to initiate the ISO standardisation work. This may reduce the costs of correspondent banking, provided there is continued close cooperation between the public and private sectors. For this approach to be successful, additional consideration is needed of the potential investments in KYC utilities required by banks, and the role of supervisors in supporting the implementation of this solution.

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

Implementation measures regarding the LEI include:

- General promotion of LEIs: the Global LEI Foundation launched in April 2017 a campaign to inform financial institutions that they can become the "registration agents" of LEI issuers to help their customers obtain an LEI.[21]

[21] A registration agent can, in particular, inform its customers about the LEI, manage the relationship, as well as collect and transmit to the LEI issuer the information required to verify the existence of the entity applying for the LEI. For further information, see https://www.gleif.org/en/about-lei/how-to-get-an-lei-find-lei-issuing-organizations/registration-agents.

– Mapping LEIs with other identifiers: BIC-to-LEI[22] mapping facilities, would allow for routing information available in payment messages to be mapped to the relevant LEI. The GLEIF and SWIFT are continuing the development of an initial BIC-to-LEI mapping table, and will report to CPMI and CBCG on progress by October 2017.

– Assessing potential uses of the LEI as a means of accessing reliable information to support customer due diligence in correspondent banking. The BCBS has already encouraged the use of the LEI in some circumstances in its *General guide to account opening*[23]. In addition, in the revised guidance on correspondent banking, the BCBS notes that information on the group structure available in the LEI system may be a way to access information on the jurisdictions in which subsidiaries and branches of the respondent bank corporate group are located, to support their risk assessment, provided respondents make sure the information is comprehensive and up-to-date. Following recommendations made by the FSB in 2012 and the development of relevant standards by the LEI ROC and Global LEI Foundation, the information on the parent companies of legal entities started to be collected in the LEI system in May 2017 and such data is increasingly available through the Global LEI Foundation.[24] This may facilitate the access of this information in a standardised format and banks are encouraged to use this channel to exchange with each other information on their group structures, by registering their relevant entities and keeping the information up-to-date.

3) Recommendation on information-sharing initiatives:

The CPMI noted that privacy laws may prevent the transmission of additional information by the respondent to its correspondent concerning transactions, their originators and beneficiaries. In addition, the private sector identified this as a key issue that may lead banks to avoid high risk customers altogether, as banks may be prevented from sharing information that would clear suspicious transactions, or that would show that suspicious transactions are appropriately handled and reported.

The CPMI identified the following actions:

– "*Further explore ways to tackle obstacles to information-sharing, with the aim of identifying potential best practices (in the enterprise-wide context, among financial institutions not part of the same financial group, and between the public and the private sector).*" The FATF initiated a dialogue with the private sector on this issue in April 2016[25] and discussed findings from a survey by the Institute of International Finance (IIF) in February 2017. At the FATF Private Sector Consultative Forum of March 2017,[26] the FATF sought further feedback from private sector representatives on barriers to information sharing, their practical impact and measures to address them,

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[22] Business Identifier Code. The BIC is used to identify banks in correspondent banking messages, but for historical and other reasons, a bank may have several BICs. The LEI is a unique identifier for legal entities.

[23] http://www.bis.org/bcbs/publ/d353.htm, Annex 4.

[24] http://www.leiroc.org/publications/gls/roc_20170509-1.pdf. Parent information is available for download on the GLEIF website: https://www.gleif.org/en/lei-data/gleif-concatenated-file/download-the-concatenated-file.

[25] http://www.fatf-gafi.org/publications/fatfrecommendations/documents/private-sector-apr-2016.html.

[26] http://www.fatf-gafi.org/publications/fatfgeneral/documents/private-sector-mar-2017.html

which informed the guidance paper on information sharing currently under development and complementing the consolidated FATF standards on information published in June 2016.[27]

- "*The use of information-sharing mechanisms (if they exist in a given jurisdiction and data privacy laws allow this) [...] which could be complemented bilaterally with enhanced information should there be a need.*" The CPMI report describes the experience in Mexico, and factors to consider when developing such mechanisms.
- "*In order to support information-sharing in general, the respondent bank may include provisions in its contractual framework with its customers (e.g. in the terms and conditions or in a supplementary agreement) which allow the bank to provide such general information on request to other banks for AML/CFT compliance purposes.*" Jurisdictions may also have to amend their legislation, as was done by Mexico by amending banking secrecy regulation to allow Mexican banks to exchange information for AML/CFT with certain foreign banks.

4) Recommendation on payment messages, with a focus on the correct use of available methods for payment.

Improving the quality of information in payment messages should reduce the number of requests for additional information and associated costs, and more generally improve trust between the correspondent and respondent. As described above, the BCBS published the final version of their revised guidance on supervisors' expectations regarding the quality of payment message content. In cooperation with CPMI and FSB, BCBS also initiated a dialogue with the Wolfsberg Group and the PMPG[28], with the March 2017 workshop. The PMPG published on 21 June 2017 revised guidelines on the correct use of the MT 202 COV payment messages.[29]

Improving in practice the quality of payment messages will require the correct implementation of these guidelines. It is also important that supervisors be alert to the quality of payment messages issued by the institutions they supervise, as part of their supervisory activities described in section 3. B).

5) Recommendation on the use of the LEI on an optional basis as additional information in payment messages:

The CPMI invited relevant stakeholders (e.g. the PMPG) to work to define a common market practice for how to include on an optional basis the LEI in the current relevant payment messages without changing the current message structure. Separately, and as part of a potential future migration to message formats based on the ISO 20022 standard, CPMI encourages relevant stakeholders (i.e. ISO and SWIFT) to consider developing dedicated codes or data items for the inclusion of the LEI in payment messages.

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[27] http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/Consolidated-FATF-Standards-information-sharing.pdf.

[28] https://www.swift.com/about-us/community/swift-advisory-groups/payments-market-practice-group.

[29] https://www.swift.com/about-us/community/swift-advisory-groups/payments-market-practice-group/document-centre/document-centre?category=6621

The FSB CBCG noted that, in line with CPMI recommendations and BCBS guidance, the optional addition of the Legal Entity Identifier (LEI) in payment messages would support information sharing on the originator and beneficiary of wire transfers, by removing certain ambiguity that may be associated with names, and facilitating the retrieval of information of this customer.

Participants in the Paris workshop of March 2017 discussed the benefits of the LEI as an additional information in payment messages:

- The LEI unambiguously identifies legal entities and reduces the costs of handling false positive results when screening names against sanctions lists.[30]
- The LEI can provide information on entities[31]. The LEI can also serve as a bridge between information in payment messages and information in KYC utilities and other databases on legal entities. The CBCG had therefore noted the possibility that adding the LEI into payment messages may reduce the number of requests for additional information by correspondent to their respondents.
- The LEI, because it is machine readable, can facilitate automated analysis at a lower cost, especially in situations that require enhanced due diligence and tend to be the ones more affected by the decline in correspondent banking.

PMPG representatives updated participants on the status of their work on an industry dialogue on the inclusion of LEI as additional/optional information in relevant payment messages. Since the publication of "LEI in the Payments Market" [32] in September last year, PMPG has received responses from around 40 industry participants, and many of them highlighted concerns as regards complexities and costs associated with the inclusion. The PMPG published in June 2017 the conclusion of the consultation.[33] One of the concerns is the fact that the LEI does not provide yet universal coverage: before incurring the costs of adding the LEI to payment messages, the industry needs sufficient assurance that the LEI will effectively be used for a significant proportion of transactions.

B. Potential public sector involvement in other technical solutions

The CBCG had initial discussions on the scope for public sector actions, at the national, regional or international level, to support technical solutions addressing or offsetting the reduced availability of correspondent banking. The IMF Staff Discussion Note of 30 June 2016 presented the case for contingency planning and public support for countries facing severe loss of correspondent banking services, including central banks or publicly-backed vehicles

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[30] Even if sanctioned entities do not have an LEI, the LEI can be used in "white lists" of entities that have names similar to a name on a sanction list but are not targeted by those lists. This is particularly helpful when the original language of a name on the sanction list is not in Latin characters, which are the only ones supported by SWIFT, and multiple transliterations or translations are possible, or for entities with long names that exceed the capacity of the SWIFT message fields and get truncated or abbreviated.

[31] E.g. legal and headquarter address, and from May 2017 also certain parent entities, but not beneficial owner, information.

[32] LEI in the Payment Market, https://www.swift.com/file/31476/download?token=nOwhMffZ.

[33] LEI in Payments Market Survey Summary, https://www.swift.com/about-us/community/swift-advisory-groups/payments-market-practice-group/document-centre/document-centre?category=3406.

providing, as a last resort, clearing services to banks that find it difficult to secure correspondent banking relationships. The CBCG shares the view that this is a last resort option.

In its April 2017 report "*Recent Trends in Correspondent Banking Relationships – Further Considerations*" the IMF explored further the possibility of temporary measures in the event of an abrupt and comprehensive loss of correspondent banking relationships, including the use of public entities or centralised payment systems, such as regional payment arrangements, or temporary mechanisms with foreign central banks in globally systemic countries to settle low risk transactions (contingent on the interest of foreign central banks in participating in such arrangement). The IMF underlines that "the design of any public vehicles requires care in assessing legal and operational feasibility and in mitigating potential risk exposures for central banks".

As noted in the previous FSB progress report on correspondent banking, it is particularly important that concerns about weak compliance with AML/CFT standards be addressed in the first place; otherwise, any public sector facility would eventually face the same problems in accessing the international financial system. Such projects should therefore be informed by a good understanding of the causes of the loss of correspondent banking relationships in the jurisdiction, such as the role of country risks and insufficient profitability due to low volumes and other factors.

C. Potential applications of financial technologies

The CBCG had an initial discussion on whether advances in big data and analytics might be usefully combined with KYC utilities, better information in payment messages and the LEI to facilitate due diligence on correspondent banks and transaction monitoring. For instance, machine learning and artificial intelligence might improve the capabilities and cost efficiency of automated monitoring systems. Biometric technology and centralised databases have begun to be used as a means of verifying customers' identities in some jurisdictions such as India, to support financial inclusion and thereby a lesser use of cash. This in turn could help address some of the issues faced by remittances as discussed in section 5. Fintech could also facilitate the secure information sharing of information between financial institutions. The CBCG asked Workstream 4 to consider whether further work should be conducted in this area, in consultation with FATF.

The FATF held a Fintech and RegTech Forum in May 2017 in San Jose. The Forum discussed the significant trends and developments of FinTech and RegTech, and how the financial services landscape could look like in the near future, including peer-to-peer transfers, crowdfunding, distributed ledger-technology or blockchain-based services, analytical tools, KYC utilities, and digital identity. Forum participants set out high level, guiding principles for how the public and the private sectors could move forward to promote further constructive dialogue and engagement on these issues and help strike the right balance between supporting innovation and managing any ML/TF risks that arise.[34]

[34] http://www.fatf-gafi.org/publications/fatfrecommendations/documents/fatf-fintech-regtech-forum-may-2017.html

5. Developing a specific action plan on the access of money transfer operators to banking services

In its November 2015 report to the G20 on actions taken to assess and address the decline in correspondent banking, the FSB had observed that the loss of correspondent banking services can increase financial exclusion, e.g. where it affects flows such as remittances which are a key source of funds for people in many developing countries. According to the World Bank, in 2015, inflows from remittances were equivalent to more than 10% of GDP in 29 countries, and more than 20% for 8 of them.[35] Part of these remittances go entirely through the banking system in the sending and receiving countries, while another part involves, at one or both ends, non-bank institutions called Money Transfer Operators (MTOs) or providers of Money and Value Transfer Services (MVTS). These operators play a particularly significant role in serving migrant populations, and for some remittance corridors involving small communities or transfers to vulnerable jurisdictions.

A 2015 World Bank survey on correspondent banking, conducted with support from the FSB and CPMI, showed that MTOs were one of the categories of bank customers that bore the brunt of the reduced provision of correspondent banking services. Another World Bank report on the remittance market, commissioned that same year by the G20 Global Partnership for Financial Inclusion (GPFI), showed that 28% of the surveyed MTO principals and 45% of the agents could no longer access banking services.[36] As described in the CBCG data report just published by the FSB, out of 118 respondent banks that answered the question, over 50 terminated their relationships with some of their MTO customers between January 2011 and June 2016, and close to 30 exited most of these relationships The most common reasons cited for termination by banks for termination were the perceived risk or the additional KYC or customer due diligence measures associated with these customers. Other payment service providers are similarly affected. For this reason, there are serious concerns that the lack of regulated remittance routes drives these flows underground, encouraging unregulated operators and cash couriers, and increasing the ML/TF risks to society as a whole. The IMF notes in its report published in April 2017 that after following a downward trend in the beginning of the decade, the average cost of remittances has increased moderately in recent years, but still remains well below 2011. However, there is a clear upward trend in some countries in East Asia and the Pacific, Latin America and the Caribbean, the Middle East and North Africa, and Sub-Saharan Africa.[37] Concerns were also expressed by the G7, which agreed that they should continue to

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[35] The World Bank, Personal remittances, received (% of GDP). Personal remittances comprise personal transfers and compensation of employees. Personal transfers consist of all current transfers in cash or in kind made or received by resident households to or from nonresident households. Personal transfers thus include all current transfers between resident and nonresident individuals. Compensation of employees refers to the income of border, seasonal, and other short-term workers who are employed in an economy where they are not resident and of residents employed by nonresident entities. http://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS

[36] http://siteresources.worldbank.org/EXTFINANCIALSECTOR/Resources/282884-1400093105293/GPFI_Remittances_Report_Final072014.pdf

[37] http://www.imf.org/en/Publications/Policy-Papers/Issues/2017/04/21/recent-trends-in-correspondent-banking-relationships-further-considerations, p. 20

improve the effective supervision and monitoring of the sector, including their agents, on a risk based approach[38] and published a report for promoting best practices in this area.[39]

In an IMF Working Paper on Challenges in correspondent banking in the small states of the Pacific[40] published in April 2017, the authors conclude that efforts to increase financial inclusion across the small states of the Pacific were bearing fruit, but are now facing setbacks and that the closure of MTOs as a result of the loss of their bank accounts could leave parts of the population without ready access to financial services. They note that "*The broader macroeconomic impacts have been limited so far, as payment flows can still be re-directed. But without corrective policy actions, the consequences of continued withdrawal of CBRs could undermine the functioning of the financial system, weaken growth prospects, and reduce resilience to shocks.*"

A. The responses so far by the international community

The international community has dedicated significant attention to the issue of loss of access to banking services by MTOs.

1) Global Partnership for Financial Inclusion (GPFI)

The GPFI's work on remittances and de-risking focuses on policy analysis, recommendation development, and awareness raising.

The GPFI, through its Financial Inclusion Action Plan, contributed to the analysis of the issue, especially through the World Bank survey mentioned above, including consideration of the various factors affecting de-risking, and the identification of possible ways to address the closures. Several other GPFI reports address the issue.[41]

The GPFI Financial Inclusion Action Plan also involves reducing the cost of sending remittances, taking into account systemic causes of high remittance transfer costs, while ensuring the quality of remittances services and service delivery, and working to establish a supportive policy and regulatory environment for competitive remittance markets, as well as to maximize their impact on local economic development.[42]

The GPFI has also supported collaboration with key stakeholders on the issue of access to banking services, including policymakers, regulators, MTOs and banks through high-level meetings such as the Global Forum on Remittances and Development convened by GPFI

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38 http://www.g7italy.it/sites/default/files/documents/G7%20FM%26CBG%20-%20Bari%20Communiqué.pdf

39 http://www.g7italy.it/sites/default/files/documents/Promoting%20Best%20Practices%20in%20the%20MVTS%20sector%20.pdf

40 https://www.imf.org/en/Publications/WP/Issues/2017/04/07/Challenges-in-Correspondent-Banking-in-the-Small-States-of-the-Pacific-44809

41 For example, the (i) study on the *Use of Remittances and Financial Inclusion* (2015) and (ii) GFPI White Paper on *Standard Setting Bodies and Financial inclusion – The Emerging Landscape* published (2016). The study on the *Use of Remittances and Financial Inclusion* analyses the financial inclusion impact of remittances, broader development effects of remittances, and provides policy recommendations aiming to increase the development impact of remittances. The GPFI White Paper provides recommendations focused on improving understanding of de-risking.

42 More generally, G20 members agreed in 2014 to implement actions to help lower the cost of sending remittances in the G20 Action Plan to Facilitate Remittance Flows. Through National Remittance Plans, G20 members have implemented a wide range of measures, appropriate to each member's circumstances and the needs of different remittance corridors.

Implementing Partners the World Bank and IFAD a range of stakeholders and during GPFI Forums.

GPFI members are in the process this year of updating the 2015 National Remittance Plans, as mandated by the G20 monitoring framework, to help identify achievements made and key themes on actions undertaken by G20 countries towards supporting a healthy environment for remittances. The 2017 plans will include data collected and work carried out, including policy guidance and improvement to oversight regimes, to address banking challenges for remittance providers. GPFI members were also asked to provide evidence of new withdrawals of correspondent banking, changes to the number of MTOs, and new policy responses to address these withdrawals.

2) FATF

In February 2016, the FATF published its "Guidance for a Risk Based Approach to Money or Value Transfer Services"[43], with one section dedicated to financial inclusion and AML/CFT, and another to the access for MVTS to banking services. The FATF "Revised Guidance on Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion"[44] published in February 2013 addresses especially the provisions applicable to MVTS providers and the importance of a balanced AML/CFT Regime. The FATF Guidance on Correspondent Banking Services of October 2016 provides additional guidance for financial institutions which have MVTS providers as customers.[45]

B. FSB involvement to date

In December 2016, the G20 asked the FSB that outreach meetings be organised to discuss whether there are remaining issues that should be addressed relating to remittance services, in particular remittance providers' access to correspondent banking services. On this basis, the FSB, FATF and GPFI, together with the G20 Presidency, met with the private sector on 22 March 2017 in Vienna for a dialogue on issues relating to remittance providers, including their access to banking services, meeting first with MVTS sector and later that day with the banking sector.

The overall impression in the MVTS sector is that it is increasingly difficult for MVTS providers to maintain their existing banking relationships, or to establish new ones, leading to closures or an increasing use of less transparent non-bank clearing methods. While some have seen the situation stabilise, others see no improvements, even after having reinforced their compliance systems.

Even where remittance services remain available, reduced access to banking services increases the cost of remittances through several channels including more costly clearing alternatives or less competition among remittance providers. This may undermine progress towards the UN

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[43] http://www.fatf-gafi.org/media/fatf/documents/reports/Guidance-RBA-money-value-transfer-services.pdf, sections I-D and IV.

[44] http://www.fatf-gafi.org/media/fatf/documents/reports/AML_CFT_Measures_and_Financial_Inclusion_2013.pdf, p. 45-50.

[45] http://www.fatf-gafi.org/media/fatf/documents/reports/Guidance-Correspondent-Banking-Services.pdf p. 18 and 19.

target for remittance costs to be 3% of the value of funds (currently estimated to average 7.4%, down from 10% in 2008).

The factors affecting access to banking services identified by participants in the Vienna meeting included:

- MVTS relationships are not seen as profitable by banks, as they bring little income and are expensive to monitor. Moreover, the financial crisis has made banks less willing to continue to provide services to unprofitable customers.
- A perception of inherently high risk for the sector as a whole, primarily because of the cash-intensive nature of its activities, but also frequently because of MVTS involvement in high risk countries or territories. National and supranational risk assessments may reinforce the perception of the sector as high-risk, with the concern by some MVTS operators of an insufficient distinction between MVTS operators that have extensive AML/CFT programmes to mitigate risks, and those that do not.
- The fact that MVTS generally settle through banks only net amounts resulting from the balance of transfers sent and received, instead of individual transfers, reduces transparency and makes it difficult to manage the risk associated with their MVTS customers' lack of adequate controls, including sanctions screening and TF risks
- The lack of confidence in the supervision of MVTSs further raises the risk perception of the sector. There is a general perception among banks that the MVTS sector is lightly monitored and not effectively supervised, reinforced in the absence of information on supervisory findings. The agent networks used by many MVTSs (involving a large number and diversity of agents as the contact point with customers) may also create principal-agent issues that complicate the internal control framework and may make the sector more difficult to supervise. There is a perception by the banks that they had been made to act as a pseudo-regulator for the MVTS sector.
- These risk factors are compounded by the fact that banks have become more risk averse as a result of fines and other supervisory sanctions, and afraid to follow a risk-based approach, preferring to avoid the sector.
- The increased concentration in correspondent banking, especially for dollar clearing, reduces alternatives when major clearers choose to avoid serving MVTS, directly or indirectly.

Participants gave examples of measures already implemented in some jurisdictions or by some operators:

- Technical assistance and capacity-building to raise supervisory standards in recipient countries, but establishing trust may take time; some authorities have reinforced their supervision, however, only few of them make enforcement actions public or conduct annual positive audits of MVTS operators and makes these available to banks.
- Some operators have reinforced their internal AML/CFT risk management practices or transformed themselves into banks, or have joined a larger MVTS network.
- Some jurisdictions have developed alternatives to cash and alternatives to clearing through banks.

- Systems to enable better information sharing could also enable better risk management (e.g. the system implemented in 2017 in Mexico to allow information on customers' foreign transactions to be shared securely between financial institutions and providing a system-wide perspective on each customer's operations thanks to the use of the same unique identifier for each sender, and future developments to add KYC information in the database).
- More generally, MVTS providers discussed potential additional steps that they could take to reinforce banks' trust in the MVTS sector.

C. FSB work plan on the access of remittance providers to banking services

The FSB has agreed to an exploratory work plan to coordinate with other organisations to identify whether there are issues relating to remittance providers' access to banking services that are not already being dealt with through existing initiatives and, if gaps are identified that may affect the ability to make international payments, address them. This process, to include further consultations with the private sector, will inform a discussion at the next CBCG meeting on the need for an action plan to address any identified gaps relating to the access of remittance providers to banking services.

June-July 2017: Establish within CBCG a Task Force on remittance access to banking services (Remittance Task Force), reporting to the CBCG, to conduct the FSB's work in this area. The FSB will adjust the existing mandate of the CBCG to cover this topic. A few official sector bodies with relevant expertise but not already represented on CBCG (e.g. GPFI and additional national authorities (either from within or beyond FSB member jurisdictions) with particular expertise to contribute will be invited to join this workstream.

July-September 2017: The Remittance Task Force will take stock of existing work and analyse further the existing evidence and the nature of the issues. Based on this work, the CBCG will consider whether further steps would be necessary to address gaps. The analysis of the workstream will build on existing expertise and the information gathered at the Vienna meetings, conducting further outreach to the private sector (both remittance providers and banks) as needed at technical level. Based on the Remittance Task Force's analysis, CBCG would report findings and recommendations to the FSB.

October 2017: FSB, working with GPFI and FATF, will hold a high-level meeting of the public and private sectors, in the margins of the IMF-World Bank Annual Meetings. The meeting would discuss the evidence on the issues, the activities being conducted in this area by industry, national authorities and international bodies, and, where appropriate, catalyse further cooperation on additional initiatives or guidance from the private and/or public sector.

End-2017: FSB to report to the G20, and publish, its findings including, if deemed appropriate and within the mandate of the FSB, an agreed action plan to coordinate further work in this area. The report would be developed by CBCG, working through the Remittance Task Force, in consultation with GPFI, FATF and others.

The issues the CBCG, through the Remittance Task Force, should consider include:

- whether there is a need for clarifying regulatory expectations in the remittances area beyond the steps already taken;

- whether initiatives would be useful for the MVTS industry to organize itself to further support improvements in MVTS practices or improvements in audits or other reliable certifications of MVTSs' adherence to standards;
- what could be done to encourage stronger oversight of the MVTS sector, and to encourage clearer communication by supervisors of whether the MVTS sector meets supervisory and AML/CFT regulatory expectations;
- whether the CBCG could leverage on the coordination activities already conducted in the area of capacity building to help with coordination specifically in terms of technical assistance and/or training in the area of remittances;
- the potential for technical solutions to address issues relating to remittances, for instance to facilitate information sharing between banks and MVTS on the underlying customers and transactions served by MVTSs;
- the data available on MVTSs' access to and use of payment channels, consider whether there are gaps in the data that, if filled, would aid in understanding and ultimately addressing MVTSs' difficulties, and the countries and regions and types of payment flow affected. If further data work is needed, identify the international body best suited to undertake the work.

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Annex: Communication strategies for addressing perception challenges to correspondent banking relationships (CBRs)

Background. Jurisdictions exited by correspondent banks are often those with actual or perceived weaknesses in their supervisory and regulatory frameworks, including frameworks for compliance with anti-money laundering and combating the financing of terrorism (AML/CFT) standards. The perceptions of third parties (i.e., foreign country regulators/supervisors and financial institutions) on the weaknesses of a given jurisdictions' general banking supervisory and AML/CFT frameworks can have an impact on a foreign correspondent bank's decision to restrict or terminate correspondent banking relationships (CBRs) with domestic financial institutions. The more national authorities (including relevant domestic regulators and supervisors) build trust in their supervisory and AML/CFT frameworks and in the quality of their supervision, the more foreign correspondent banks will be able to rely on the information they provide without multiplying costly due diligence and checks. In this regard, the Financial Stability Board encourages national authorities to provide public information on steps undertaken to strengthen their supervisory and AML/CFT frameworks, and where needed, address perception challenges that can lead correspondent banks to restrict or terminate CBRs.

Proposal. To facilitate the strengthening of trust among key stakeholders on supervisory and AML/CFT frameworks, and to address perception challenges in relation to CBRs, the national authorities (including all relevant domestic regulators and supervisors) could develop communication plans or strategies to promote concrete actions and efforts towards safeguarding the national financial system against risks, which might lead to the restriction and/or termination of CBRs. In order to be credible, these communication plans or strategies may be complemented by concrete actions already being undertaken by the authorities, and cannot substitute for the implementation of relevant reforms.

Content. The key messages to be delivered by the authorities through such communication plans/strategies may include the following elements:

a. *Actions*. What concrete actions (national or regional) have the authorities undertaken to strengthen their financial system against the broader ML/TF risks including risks from the restriction and/or termination of CBRs (example efforts to improve the general financial supervisory and AML/CFT frameworks, conduct of a national risk assessments, strengthening supervisory tools and capacities)? What institutions have the authorities engaged with for technical assistance (TA), and what types of TA have been requested or being provided?

b. *Implementation*. With a view to demonstrating that supervisors appropriately supervise, monitor and regulate financial institutions for compliance with general supervisory and AML/CFT requirements commensurate with their risks, what efforts have the authorities undertaken to ensure proper implementation of and compliance by financial institutions with legal and regulatory measures supporting the maintenance of CBRs? What are the specific and observable results arising from these implementation efforts? What factual or statistical information is publicly available or can be shared (by authorities, financial institutions or other sources) to demonstrate the authorities' efforts towards effective implementation?

c. *Monitoring*. What monitoring mechanisms and contingency plans do the authorities have in place to assess and mitigate the risks of restriction and/or termination of CBRs?

Target Audience. Correspondent and domestic banks in the national authorities' jurisdiction as well as their foreign counterparts, foreign regulators/supervisors, other relevant stakeholders, and the public in general.

Modalities. The objectives for the communication plans or strategies could be best achieved through a collective or joint strategy involving all relevant domestic regulators or supervisors to ensure consistency and unity of messaging. These modalities may be tailor-made based on the intended target audience and could consist of the following: press conferences; periodic briefings with stakeholders; seminars/workshops; visits to banks; fact-sheets and Q&As; periodic newsletters, regularly updated websites including information on actions taken, etc. The frequency by which the national authorities' resort to these modalities for communication to the relevant stakeholders and the public will depend on several factors: the objective of the communication, the intended audience, any recent progress in significantly improving the supervisory or AML/CFT frameworks, new relevant developments, projects or initiatives to address risks of CBRs, and the availability of financial or human resources to implement these modalities for communication, among others.

Role of CBCG-Member Institutions. As part of their own communication plans or strategies, the national authorities could also engage with CBCG member-institutions and providers of TA to support their communication plans or strategies by providing updates and results or outcomes from TA projects.

Example. IMF country reports for Article IV consultations include an Informational Annex that details TA being provided to the country and outcomes (including on AML/CFT issues) as well as collaborative activities with other international organizations (e.g., World Bank, Inter-American Development Bank, African Development Bank, Asian Development Bank. Caribbean Development Bank, the IMF Regional training centers, etc.).