



## Wolfsberg Anti-Money Laundering Principles for Correspondent Banking

### 1 Preamble

The Wolfsberg Group of International Financial Institutions<sup>1</sup> has agreed that these Principles constitute global guidance on the establishment and maintenance of Foreign Correspondent Banking relationships. It is noted that these principles are not intended to address the risks associated with Domestic Correspondent relationships. The Wolfsberg Group believes that adherence to these Principles will further effective risk management and enable institutions to exercise sound business judgement with respect to their clients. Furthermore, adherence to these Principles will support the aim of Wolfsberg Group members to prevent the use of their worldwide operations for criminal purposes.

For the purpose of this document, anti-money laundering (AML) includes measures under counter-terrorist financing (CTF) and evasion of sanctions.

### 2 Correspondent Banking

Correspondent Banking is the provision of a current or other liability account, and related services, to another financial institution, including affiliates, used for the execution of third party payments and trade finance, as well as its own cash clearing, liquidity management and short-term borrowing or investment needs in a particular currency. A Correspondent Bank is effectively acting as its Correspondent's agent or conduit, executing and/or processing payments or other transactions for the Correspondent's customers. These customers may be individuals, legal entities or even other financial institutions. A correspondent relationship is characterised by its on-going, repetitive nature and does not generally exist in the context of

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<sup>1</sup> The Wolfsberg Group consists of the following financial institutions: Banco Santander, Bank of Tokyo-Mitsubishi-UFJ Ltd, Barclays, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JPMorgan Chase, Société Générale and UBS

one-off transactions. These Principles extend to all Correspondent Banking relationships which an institution establishes or maintains for another Correspondent Banking Client, including those where the Correspondent Banking Client is an affiliate, subsidiary or branch of that institution. Although these Principles address the relationships maintained with other Banks, institutions may decide to extend these Principles to all the relationships which they maintain for non-bank financial institutions. These principles may also be applied to SWIFT Relationship Management Application (RMA) relationships in part, or in totality, using a risk based approach.

Institutions should also be mindful that some jurisdictions define Correspondent Banking in terms that are broader than what is generally considered to be traditional Correspondent Banking activity. Accordingly, these Principles shall be implemented in a manner that is consistent with such local interpretations, to the extent that they are applicable.

### **3 Responsibility and Oversight**

Institutions shall define policies and procedures which require specified personnel to be responsible for ensuring compliance with these Principles. A formal governance body with specific oversight of Foreign Correspondent Banking, inclusive of on-boarding and escalations, may be considered for this purpose. The policies and procedures shall require that at least one person, senior to or independent from, the officer sponsoring the relationship, approve the Correspondent Banking relationship. The policies and procedures also shall provide for independent review by appropriate personnel to ensure continued compliance with the institution's policies, procedures and these Principles.

### **4 Risk Based Due Diligence Guidelines / Considerations**

All Correspondent Banking Clients shall be subjected to appropriate due diligence that will seek to satisfy an institution that it is comfortable conducting business with a particular client, given the client's risk profile and the nature of the business relationship with that client. It may be appropriate for an institution to consider, but not rely on solely, the fact that a Correspondent Banking Client operates in, or is subjected to, a regulatory environment which is internationally recognised as adequate in the fight against money laundering and terrorism finance. In these instances, an institution may also rely on publicly available information obtained either from the Correspondent Banking Client or reliable third parties (regulators, exchanges, etc.) to satisfy its due diligence requirements. The evaluation of risk and level of due diligence must take into account the particular risk of the Correspondent Banking client, be it the parent entity, subsidiary or branch of that parent, or an entity affiliated with the institution itself and the potential AML risk associated with services provided to the client. The institution's policies and procedures shall require that the Correspondent Banking Client information is reviewed and updated on a defined risk based, periodic basis. In addition, a trigger event, *e.g.* relevant AML related adverse media or adverse client behaviour that results in a material change in the risk profile of the Correspondent Banking Client, shall prompt a review of the file.

In conducting due diligence on any Correspondent Banking Client, the elements set out below to address specific risk indicators shall be considered, as appropriate:

- **The Correspondent Banking Client's Geographic Risk**

Certain jurisdictions are internationally recognised as having inadequate anti-money laundering standards, insufficient regulatory supervision, presenting greater risk for crime, corruption, terrorist financing or pose elevated risk of evading sanctions. On the other hand, other jurisdictions with more robust regulatory environments represent lower risks. The effectiveness of the particular supervisory regime must be considered, particularly where the regime has been found to be deficient in its application of global AML/CFT standards. Institutions shall review pronouncements from regulatory agencies and applicable international bodies, such as the Financial Action Task Force (FATF), to evaluate the degree of risk presented by the jurisdiction in which the Correspondent Banking Client is based, jurisdiction in which its ultimate parent is headquartered, and jurisdictions of those with whom they conduct business.
- **Branches, Subsidiaries and Affiliates of Correspondent Banking Clients**

The determination of the level and scope of due diligence that is required on a Correspondent Banking Client shall be made after considering the relationship between the Correspondent Banking Client and its ultimate parent (if any). In general, in situations involving branches, subsidiaries or affiliates, the AML control programme of the Correspondent Banking Client parent shall be considered in determining the extent of required due diligence. In instances when the Correspondent Banking Client is an affiliate, which is not substantively and effectively controlled by the parent, then both the parent and Correspondent Banking Client shall be reviewed. However, certain facts unique to the branch, subsidiary or affiliate may dictate that enhanced due diligence be performed, particularly with respect to local, product or regulatory standards within the specific jurisdiction.
- **Branches, Subsidiaries and Affiliates of the Institution**

As noted, when an entity affiliated with the institution is the account holder, it is also a Correspondent Banking Client which is generally subject to the due diligence measures outlined in these Principles. The level and scope of due diligence on such a Client shall be dependent upon the level of control exercised by the parent institution, certain facts unique to that branch, subsidiary or affiliate, as well as regulatory standards and risks that may apply within the jurisdiction of that entity.
- **The Correspondent Banking Client's Ownership and Management Structures**

The ownership and management structure of the Correspondent Banking Client may present increased risks. Relevant risk considerations include the domicile and reputation of the owners; the corporate legal form of the Correspondent Banking Client; whether it is state owned, publicly held or privately owned; the transparency of

the ownership structure; whether it is publicly held, its shares traded on an exchange in a jurisdiction with an adequately recognised regulatory scheme and the identity of any significant ownership. The structure and experience of Executive Management, *e.g.* most senior executives in charge of its day-to-day business, may also be appropriate for consideration. Depending on the circumstances of the Correspondent Banking Client, this may include the members of the Correspondent Banking Client's Board of Directors, Supervisory Board, Executive Committee or its equivalent. The presence of any politically exposed persons (PEPs) in the Executive Management or ownership structure is also an important consideration. For all significant controlling interests, the ultimate beneficial owners, sources of wealth and background, including their reputation in the market place (particularly as may be related to any negative or adverse AML matters) as well as recent material ownership changes shall also be ascertained to the extent available through inquiry or public sources. Similarly, a more detailed understanding of the reputation of the client's Executive Management, as well as recent material changes in the Executive Management structure and the identity of any significant controlling individual(s), shall be considered where there is evidence of any associated adverse reputational risk.

- **The Correspondent Banking Client's Business**

The types of financial products and services the Correspondent Banking Client offers to its own clients, as well as the type of markets the Correspondent Banking Client serves, may present greater risks. Involvement in certain business segments and providing certain products or services generally recognised as being vulnerable to money laundering, corruption, terrorist financing or evading sanctions, may present additional risks and shall be considered. Increased risk factors include operating in high risk jurisdictions, MSBs, private banking and cross border wire transactions.

- **The Correspondent Banking Client's Customer Base**

The types of businesses/clients serviced by the Correspondent Banking Client may be relevant to the risk it poses to the institution providing Correspondent services. A Correspondent Banking Client which derives a substantial part of its business income from Clients posing elevated risk due to activities they engage in, or jurisdictions, in which they operate, may present greater risk themselves. Each institution offering Correspondent Banking services shall assess whether such activities are relevant to its relationship with the Correspondent Banking Client and give the appropriate weight to each risk factor as it deems necessary.

- **Products or Services Offered to the Correspondent Bank Client**

The business purpose(s) for the relationship with the Correspondent Banking Client, including the products and services offered to that Client. Expected business activity to

be transacted through the Correspondent account shall be documented to reflect reasonably an understanding of what is normal and expected.

- **Regulatory Status and History**

Reasonable measures shall be taken to verify that the Correspondent Banking Client is subject to regulatory oversight in the jurisdiction where it operates. The institution shall determine if the client has been the subject of any relevant, material regulatory action and assess the extent to which it is relevant to the establishment/continuance of the relationship or whether enhanced risk mitigation measures may be appropriate.

- **Anti-Money Laundering Controls**

Using a risk based approach, the institution shall evaluate the quality of the Correspondent Banking Client's anti-money laundering programme, including how it meets internationally recognised standards and sufficiency so as to mitigate the risk presented based upon their products, customer base and jurisdiction. The extent to which an institution will enquire about the Correspondent Banking programme will depend upon the risks presented. Additionally, the institution may speak with representatives of the Correspondent Banking Client, review AML controls and corroborate findings.

- **No Business Arrangements With Shell Banks**

The institution shall confirm that the Correspondent Banking Client is not a Shell Bank<sup>2</sup> and does not provide products or services to Shell Banks

- **Client Visit**

Unless other measures suffice, a representative of the institution should visit the Correspondent Banking Client at their premises, prior to or within a reasonable period of time after establishing a relationship with a Correspondent Banking Client, to support the client due diligence process. Site visits by AML subject matter experts may also be conducted at the time of periodic review if deemed necessary.

## **5 Enhanced Due Diligence**

In addition to due diligence, each institution shall also apply enhanced due diligence to those Correspondent Banking Clients which present greater risks. The enhanced due diligence process

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<sup>2</sup> As defined in the FATF Recommendations Glossary, a Shell bank means "a bank that has no physical presence in the country in which it is incorporated and licensed, and which is unaffiliated with a regulated financial group that is subject to effective consolidated supervision.

Physical presence means meaningful mind and management located within a country. The existence simply of a local agent or low level staff does not constitute physical presence."

shall involve further consideration of the following elements, designed to satisfy the institution that it has secured a greater level of understanding:

- **PEP Involvement**

If a PEP appears to have involvement in the Correspondent Banking Client, then the institution shall ensure it has an understanding of the person, their role and the appropriateness of that role, their ability to influence the Client and the risk they may present to the relationship.

- **Downstream Correspondents**

A downstream correspondent (also referred to as “nested”) relationship occurs when a Correspondent Bank client provides Correspondent services to other banks, domiciled inside or outside their country, to facilitate international products and services on behalf of the Downstream Correspondent’s clients, *e.g.* when a Regional savings bank offers correspondent services to the local savings banks in its area. When these services are offered by a Correspondent Banking Client to a Downstream Correspondent, the institution shall take reasonable steps to understand the types of financial institutions to whom the Correspondent Banking Client offers the Downstream Correspondent services. These may include the types, number, scale of services and geographic distribution of Downstream Correspondents, any identified issues with the Downstream Correspondent either directly or indirectly, and consider the degree to which the Correspondent Banking Client examines the anti-money laundering controls of the financial institutions to which it offers those services and whether the activity poses elevated risk.

- **Approval**

Approval of higher risk Correspondent Banking relationships at the time of on-boarding and periodic review shall be subject to a higher level of approvals by business and Compliance, or relevant control function. Periodic reviews shall be conducted of all high risk Correspondent Banking relationships, at minimum on an annual basis.

## **6 Monitoring and Reporting of Suspicious Activities**

The institution shall implement bank-wide policies and procedures to detect and investigate unusual or suspicious activity and report any such activity as required by applicable law. These will include guidance on what is considered to be unusual or suspicious and give examples thereof. The policies and procedures shall include appropriate monitoring of the Correspondent Bank’s activity, incorporating due diligence results such as customer risk rating and other factors considered meaningful in the assessment of transaction activity risk. In turn, the results of suspicious activity monitoring shall be factored into the periodic review of the client’s file, particularly when the results of transaction monitoring indicate elevated risk levels. The

relationship between due diligence information and transaction monitoring shall be continuous throughout the life of the Correspondent Bank relationship and apply to both the correspondent and any related “suspect” activity. This is commonly referred to as the feedback loop.

## **7 Integration with Anti-Money Laundering Programme**

These Principles shall form an integral component of the institution’s wider anti-money laundering programme, including anti-bribery and corruption, fraud and evasion of sanctions.