

The Wolfsberg Anti-Money Laundering Principles for Correspondent Banking

1 Preamble

The Wolfsberg Group of International Financial Institutions¹ has agreed that these Principles constitute global guidance on the establishment and maintenance of Correspondent Banking 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.

2 Correspondent Banking

These Principles extend to all Correspondent Banking relationships an institution establishes or maintains for another Correspondent Banking Client². Correspondent Banking is the provision of a current or other liability account and related services to another institution used to meet its cash clearing, liquidity management and short-term borrowing or investment needs. Institutions may decide to extend these Principles to all relationships that they maintain with financial institutions.

3 Responsibility and Oversight

The institution shall define policies and procedures that require specified personnel to be responsible for ensuring compliance with these Principles. 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 and procedures and these Principles.

4 Risk-Based Due Diligence

These Principles advocate a risk-based approach. Correspondent Banking Clients presenting greater risk should be subjected to a higher level of due diligence. These Principles outline the type of risk indicators that an institution shall consider in initiating the relationship, and on a continuing basis, to ascertain what reasonable due diligence or enhanced due diligence it will undertake. In particular, the institution will consider these risk indicators:

- **The Correspondent Banking Client's Domicile** - The jurisdiction where the Correspondent Banking Client is based and/or where its ultimate parent is headquartered may present greater risk. Certain jurisdictions are internationally recognised as having inadequate anti-money laundering standards, insufficient regulatory supervision, or presenting greater risk for crime, corruption or terrorist financing. On the other hand, other jurisdictions such as members of the Financial Action Task Force (FATF) have more robust regulatory environments representing lower risks. Institutions will review pronouncements from regulatory agencies and international bodies, such as the FATF, to evaluate the degree of risk presented by the jurisdiction in which the Correspondent Banking Client is based and/or in which its ultimate parent is headquartered.
- **The Correspondent Banking Client's Ownership and Management Structures** – The location of owners, their corporate legal form and the transparency of ownership structure may present greater risks. Similarly, the location and experience of management may raise additional concerns. The involvement of Politically Exposed Persons (PEP) in the management or ownership of certain Correspondent Banking Clients may also increase the risk. PEPs are individuals who have or have had positions of public trust such as government officials, senior

¹ The Wolfsberg Group consists of the following leading international financial institutions: ABN AMRO Bank N.V., Banco Santander Central Hispano S.A., Bank of Tokyo-Mitsubishi Ltd., Barclays Bank, Citigroup, Credit Suisse Group, Deutsche Bank AG, Goldman Sachs, HSBC, J. P. Morgan Chase, Société Générale, UBS AG.

² Correspondent Banking Client is a client of an institution that is a financial services firm that uses the institution's Correspondent Banking services accounts to clear transactions for its own client base. The term includes (but is not limited to) Banks, Broker-Dealers, Mutual Funds, Unit Trusts, Investment Services Firms, Hedge Funds, Introducing Brokers, Money Service Businesses, Pension Funds, Credit Card Providers, Commercial Credit Companies, Household Finance Companies, Mortgage Banks, Building Societies, and Leasing Companies.

executives of government corporations, politicians, important political party officials etc. and their families and close associates.

- **The Correspondent Banking Client's Business and Customer Base** – The type of businesses the Correspondent Banking Client engages in, as well as the type of the markets the Correspondent Banking Client serves, may present greater risks. Involvement in certain business segments internationally recognised as creating particular vulnerability to money laundering, corruption or terrorist financing presents additional concern. Consequently, a Correspondent Banking Client that derives a substantial part of its business income from Higher Risk Clients may present greater risk. Higher Risk Clients are those clients of a Correspondent Banking Client that may be involved in activities or are connected to jurisdictions that are identified by credible sources as activities or countries being especially susceptible to money laundering.

Each institution may give the appropriate weight to each risk factor as it deems necessary.

5 Due Diligence Standards

All Correspondent Banking Clients shall be subjected to appropriate due diligence that will seek to assure that an institution is comfortable conducting business with a particular client given the client's risk profile. It may be appropriate for an institution to consider the fact that a Correspondent Banking Client operates in or is subjected to a regulatory environment that is internationally recognised as adequate in the fight against money laundering. 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. In conducting due diligence on any Correspondent Banking Client, the elements set out below shall be considered, as appropriate.

- **Client Domicile and Organisation**

The jurisdiction where the Correspondent Banking Client's ultimate parent is incorporated and/or headquartered and where the particular operating unit wishing to maintain the relationship conducts its business, as well as the corporate legal form of the Correspondent Banking Client.

- **Client Ownership and Executive Management**

Whether the Correspondent Banking Client is publicly held or privately owned; whether if publicly held, its shares are traded on an exchange in a jurisdiction with an adequately recognised regulatory scheme; and the identity of any significant controlling interests.

The structure and experience of Executive Management. These are the most senior executives in charge of its day-to-day business. Depending on the circumstances of the Correspondent Banking Client this may include the Members of the Correspondent Banking Client's Board of Directors or Supervisory Board or Executive Committee or its Executive Committee or its equivalent.

The existence of any PEP in the Executive Management or ownership structure.

- **Correspondent Banking Client's Business**

The types of financial products and services the Correspondent Banking Client offers to its own clients, and depending upon the risk associated with the Correspondent Banking Client, the geographic markets reached.

- **Products or Services Offered**

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

- **Regulatory Status and History**

The primary regulatory body responsible for overseeing or supervising the Correspondent Banking Client. If circumstances warrant, an institution will also consider publicly available materials to ascertain whether the Correspondent Banking Client has been the subject of any criminal or adverse regulatory action in the recent past.

- **Anti-Money Laundering Controls**

The nature of the Correspondent Banking Client's anti-money laundering controls and the extent to which they are globally applied.

- **No Business Arrangements With Shell Banks**

Confirm that the Correspondent Banking Clients will not use the institution's products and services to engage in business with Shell Banks.

A Shell Bank is a bank that: (i) does not conduct business at a fixed address in a jurisdiction in which the Shell Bank is authorised to engage in banking activities; (ii) does not employ one or more individuals on a full time business at this fixed address; (iii) does not maintain operating records at this address; and (iv) is not subject to inspection by the banking authority that licensed it to conduct banking activities. A bank which meets these requirements but which is also a Regulated Affiliate is not a Shell Bank for the purposes of these Principles. A Regulated Affiliate is a bank which would otherwise be a Shell Bank or an Offshore Bank (as the case may be) but which is owned, directly or indirectly by a financial institution that is licensed in a jurisdiction that is not a FATF Non-cooperative Jurisdiction and which is subject to supervision by the banking authority of that jurisdiction.

- **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 an Correspondent Banking Client, amongst other things to confirm that the Correspondent Banking Client is not a Shell Bank.

6 Enhanced Due Diligence

In addition to due diligence, each institution will also subject those Correspondent Banking Clients that present greater risks to enhanced due diligence. The enhanced due diligence process will involve further consideration of the following elements designed to assure the institution has secured a greater level of understanding:

- **Ownership and Management**

For all significant controlling interests, the owners' sources of wealth and background, including their reputation in the market place, as well as recent material ownership changes (e.g. in the last five years).

Similarly, a more detailed understanding of the experience of each member of the Executive Management as well as recent material changes in the Executive Management structure (e.g. within the last two years).

- **PEP Involvement**

If a PEP appears to have an interest or management role in a Correspondent Banking Client, then the institution shall ensure it has an understanding of that person's role in the Correspondent Banking Client.

- **Correspondent Banking Client's Anti-Money Laundering Controls**

The quality of the Correspondent Banking Client's anti-money laundering and client identification controls including whether these controls meet internationally recognised standards. The extent to which an institution will enquire will depend upon the risks presented. Additionally, the institution may speak with representatives of the Correspondent Banking Client to obtain comfort that the Correspondent Banking Client's senior management recognise the importance of anti-money laundering controls.

- **Downstream Correspondent Clearing**

A Downstream Correspondent Clearer is a Correspondent Banking Client who receives Correspondent Banking services from an institution and itself provides Correspondent Banking services to other financial institutions in the same currency as the account it maintains with the institution. When these services are offered to an Correspondent Banking Client that is itself a Downstream Correspondent Clearer, the institution will take reasonable steps to understand the types of financial institutions to whom the Correspondent Banking Client offers the Downstream Correspondent services and consider the degree to which the Correspondent Banking Client examines the anti-money laundering controls of the financial institutions to whom it offers those services.

7 Shell Banks

An institution will not offer its products or services to a Shell Bank.

8 Central Banks and Supra-National Organisations

These Principles shall generally not apply to relationships with central banks and monetary authorities of FATF-Member Countries or Supra-national, Regional Development or Trade Banks (e.g. European Bank for Reconstruction and Development, International Monetary Fund, the World Bank), at least insofar as the relationship with that entity involves the provision of products and services that are in keeping with that entity's primary activities.

9 Branches, Subsidiaries and Affiliates

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 parent of the Correspondent Banking Client shall be considered in determining the extent of required due diligence. In instances when the Correspondent Banking Client is an affiliate that 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.

10 Application to Client Base

Institutions will apply these Principles to new Correspondent Banking Clients. Additionally, as these Principles unify concepts that may not have previously been applied globally, each institution will undertake a risk-based review of their existing base of Correspondent Banking Clients to determine whether additional due diligence is necessary to achieve the level of understanding espoused by these Principles.

11 Updating Client Files

The institution's policies and procedures shall require that the Correspondent Banking Client information is reviewed and updated on a periodic basis or when a material change in the risk profile of the Correspondent Banking Client occurs. Periodic review of the Correspondent Banking Clients will occur on a risk-assessed basis.

12 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 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 Banking activity.

13 Integration with Anti-Money Laundering Programme

These Principles shall form an integral component of the institution's wider anti-money laundering programme.

14 Recommendation for an International Registry

The Wolfsberg Group encourages the development and regulatory endorsement of an international registry for financial institutions. Upon registering financial institutions would submit information useful for conducting due diligence as outlined in these Principles. Financial institutions would rely on this information in adhering to these Principles.