

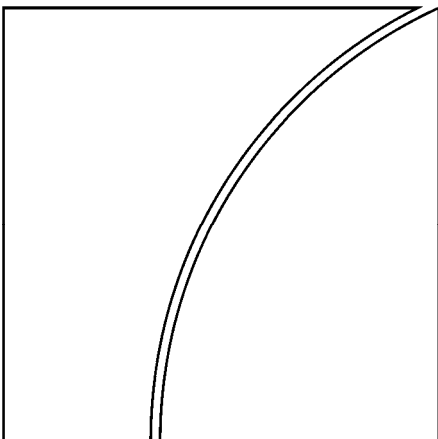
# Basel Committee on Banking Supervision

## Consultative Document

### **Due diligence and transparency regarding cover payment messages related to cross- border wire transfers**

*Issued for comment by 16 September 2008*

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## Due diligence and transparency regarding cover payment messages related to cross-border wire transfers

*This paper describes and invites comments on the Basel Committee on Banking Supervision's<sup>1</sup> preliminary views on supervisory expectations relating to transparency in payment messages, particularly in anticipation of changes to technical standards for cross-border wire transfers.*

*Comments may be sent by no later than **16 September 2008** via e-mail to [baselcommittee@bis.org](mailto:baselcommittee@bis.org). Alternatively, comments may be addressed to:*

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*The Basel Committee intends to share these comments with other standards setters, in particular the Financial Action Task Force (FATF). They will also be made public. If you do not want your comment to be made public, or if you request anonymity, please specify it clearly at the outset of your comments.*

1. The processing of cross-border wire transfers<sup>2</sup> frequently involves several financial institutions. In addition to the originator's bank and the beneficiary's bank, additional banks are often involved. This paper examines the circumstances where one or more of these intermediary banks is located in a jurisdiction other than the jurisdictions where the bank of the originator and the bank of the beneficiary are located. It describes the supervisory expectations, pursuant to the current initiatives supported by the Basel Committee to enhance transparency in payment messages, about information that must be included in payment messages related to cover payments, the various mechanisms that must be used to ensure that complete and accurate information has been included in such messages, and the use that should be made of the information for AML/CFT purposes.

2. Cover payments are used by a bank to facilitate funds transfers on behalf of a customer to a beneficiary in another country. They typically involve both (i) a transaction in a

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<sup>1</sup> The Basel Committee on Banking Supervision is a committee of banking supervisory authorities which was established by the central bank Governors of the G10 countries in 1975. It is made up of senior representatives of banking supervisory authorities and central banks from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom and the United States.

<sup>2</sup> The FATF Interpretative Note to SR VII defines a wire transfer as "any transaction carried out on behalf of an originator person (both natural and legal) through a financial institution by electronic means with a view to making an amount of money available to a beneficiary person at another financial institution. The originator and the beneficiary may be the same person." Under the FATF definition, a cross-border transfer means any wire transfer where the originator and beneficiary institutions are located in different countries. This term also refers to any chain of wire transfers that has at least one cross-border element. A wire transfer where the originator and beneficiary are in the same jurisdiction, but where one or more correspondents in a third country are used, would consequently be considered a cross-border wire transfer. In February 2008 the FATF amended its definition of "domestic transfer" by extending such definition to any chain of wire transfers that takes place entirely within the borders of the European Union.

currency other than that of the country in which the originator's or beneficiary's bank is domiciled, and (ii) the originator's and beneficiary's banks not having a relationship with each other that allows them to settle with each other directly. In this circumstance, the originator's bank may directly instruct the beneficiary's bank to effect the payment and advise that transmission of funds to "cover" the interbank obligation created by the payment order has been arranged through a separate channel. Settlement is often accomplished through the originator's correspondent bank in the country for which the payment is the national currency. If the originator bank's correspondent has a relationship with the beneficiary's bank, it can settle the payment itself; otherwise, settlement generally takes place through an additional intermediary bank that has a relationship with the beneficiary's bank. In current practice, the beneficiary can have his account credited by its own bank before interbank settlement is completed, especially when there is a robust commercial relationship.

3. This cover payment mechanism, where the cover intermediary banks<sup>3</sup> do not necessarily see the information sent to the beneficiary bank, is distinct from the direct sequential chain of payment envisaged in the FATF Special Recommendation VII on wire transfers, where the information sent to the beneficiary banks goes through the various intermediaries (see graph hereunder). Its most frequent use is to avoid the delays associated with differences in time zones between the originator's bank and the beneficiary's bank and to reduce costs of commercial transactions.

4. Existing messaging practices do not ensure full transparency for the cover intermediary banks on the transfers they facilitate. Transparency is limited when the message format used to settle the interbank payment (in the example, below, a SWIFT MT 202) does not contain information about the originating bank's and the beneficiary bank's customers. Such information is however included in the message sent to the beneficiary bank (in the example, below, a SWIFT MT103). Lack of originator and beneficiary information for funds transfers can hinder or limit a cover intermediary bank's ability to accurately assess risks associated with correspondent and clearing operations. The cover intermediary bank would also be unable to screen transactor information against locally applicable lists of individuals or entities whose assets, under local law, must be blocked, rejected or frozen. This could be particularly problematic where the list of the intermediary bank's country differs from the list of the originator's (or beneficiary's) country, and there is no guarantee that the originator's bank has taken all lists into account. There is also a risk that such messages could be chosen on purpose to conceal the names of parties to a transaction. To comply with locally applicable requirements, such as the blocking, rejecting or freezing of assets of designated individuals or entities, cover intermediary banks thus might need to receive originator and beneficiary information.

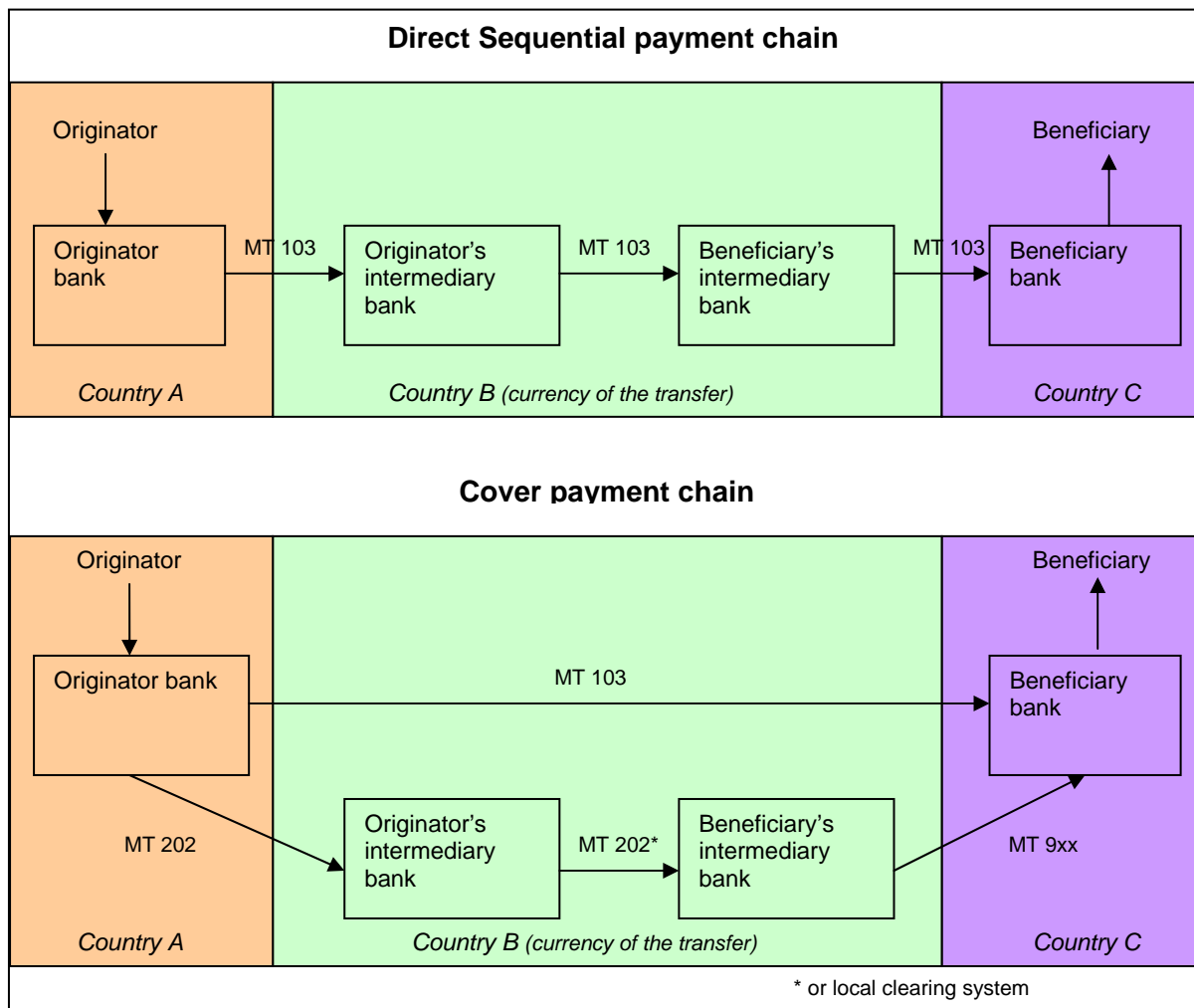
5. More detailed information regarding originators and beneficiaries of funds transfers can improve compliance with locally applicable requirements (such as the blocking, rejecting or freezing of assets of designated individuals or entities and monitoring for suspicious activity) and enhance a bank's risk management processes with respect to funds transfers. An industry effort initiated by the Wolfsberg Group and the Clearing House Association seeks to enhance transparency through (i) the adoption of certain basic payment message standards within the banking industry (the "Message Standards"); and (ii) the creation of an enhanced SWIFT payment message format for third-party cover payments that will

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<sup>3</sup> The term "cover intermediary bank" is used in this paper to highlight the difference between the role of an intermediary bank in sequential payments, which are not dealt with in this paper, and the role of an intermediary in the cover payment chain.



accommodate information about the originator and the beneficiary of the payment.<sup>4</sup> Following this initiative, the SWIFT Community is developing a technical solution which will allow complete originator and beneficiary information to be transmitted with cover payments in a standardized manner and in a form readily usable by automated screening and monitoring systems. The implementation of this solution is planned for November 2009. Other messaging standards could also be developed to include enhanced transparency.



6. In its October 2007 newsletter,<sup>5</sup> the Basel Committee encouraged this evolution for all relevant standards of messages. The implementation of such technical solutions is indeed prerequisite for the implementation of enhanced transparency and supervisory expectations described in this document. The Committee also announced at that time its intention to explore the development of supervisory policies to support the implementation of transparency efforts in the industry.

7. The Committee has called for the effective and genuine use of the technical solutions designed to enhance transparency. Indeed, increasing transparency in payment messages does not depend on messaging standards alone, but also on the implementation

<sup>4</sup> The Wolfsberg Group, Clearing House Statement on Payment Message Standards: [www.wolfsberg-principles.com/pdf/WG-NYCH\\_Statement\\_on\\_Payment\\_Message\\_Standards\\_April-19-2007.pdf](http://www.wolfsberg-principles.com/pdf/WG-NYCH_Statement_on_Payment_Message_Standards_April-19-2007.pdf)

<sup>5</sup> Basel Committee newsletter No 12 *Transparency in payments messages* ([www.bis.org/publ/bcbs\\_n12.htm](http://www.bis.org/publ/bcbs_n12.htm))

of appropriate practice by banks involved in processing the transfers, having regard to the good functioning of payment systems. The industry has already been working on the definition of good practices.<sup>6</sup> Supervisors have their role to play in monitoring an effective and consistent implementation of increased transparency in payment messages worldwide. This document, following previous work by the Basel Committee on a common supervisory approach to Customer Due Diligence (CDD) and AML/CFT issues, thus describes common supervisory expectations as well as a common understanding of the supervisory tasks regarding transparency in cover payments messages related to cross-border transfers.

## I. Information flows

8. The information that must accompany international wire transfers has been defined in general terms by the FATF. The issue of cover payments is not directly dealt with in the FATF standards, and this paper, among other things, clarifies supervisory expectations about which information must be made available to cover intermediary banks that process cover payments after the adoption of the new messaging standards allowing enhanced transparency. This document is meant to be consistent with the FATF recommendation on wire transfers and its interpretative note.

9. The FATF states in Special Recommendation (SR) VII that “Countries should take measures to require financial institutions, including money remitters, to include accurate and meaningful originator information (name, address and account number<sup>7</sup>) on funds transfers and related messages that are sent, and the information should remain with the transfer or related message through the payment chain.” The FATF Interpretative Note also specifies that financial institutions processing an intermediary element of chains of wire transfers must ensure that all originator information that accompanies a wire transfer is retained with the transfer. This standard is intended “to ensure that basic information on the originator of wire transfers is immediately available [to public authorities and] to beneficiary financial institutions to facilitate the identification and reporting of suspicious transactions”.

10. The Basel Committee considers that information on originators and beneficiaries should be included in all messages sent to cover intermediary banks processing cross-border wire transfers related to specific customer transactions to ensure enhanced transparency for all banks participating in the operation and full compliance with all applicable standards. As noted in the introduction, this requires the prior implementation of suitable technical standards for cover payment messages.

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<sup>6</sup> For instance, the Wolfsberg Group, Clearing House Statement on Payment Message Standards (see footnote 4 above).

<sup>7</sup> The FATF interpretative note specifies that “Information accompanying qualifying cross-border wire transfers must always contain the name of the originator and where an account exists, the number of that account. In the absence of an account, a unique reference number must be included. Information accompanying qualifying wire transfers should also contain the address of the originator. However, countries may permit financial institutions to substitute the address with a national identity number, customer identification number, or date and place of birth.” Countries “may adopt a de minimus threshold (no higher than USD or EUR 1,000). For cross-border transfers below this threshold: (i) Countries are not obligated to require ordering financial institutions to identify, verify record, or transmit originator information. (ii) Countries may nevertheless require that incoming cross-border wire transfers contain full and accurate originator information.”

## **II. The roles of banks processing cross-border wire transfers**

11. The purpose of this section is to set out supervisory expectations concerning the respective roles of the originator's bank, the cover intermediary banks and the beneficiary's bank in processing a cross-border cover payment for a wire transfer. Originating banks should ensure that appropriate information accompanies wire transfers while others in the payment chain are required to monitor the payment they process based on this information.

12. The Basel Committee urges all banks to apply transparency standards with particular rigour in the context of cover payments initiated to settle a customer transaction. In particular:

- Appropriate information should be included in payment messages as described in this document. Financial institutions should not omit, delete or alter information in payment messages, for the purpose of avoiding detection of that information by any other financial institution in the payment process.
- Financial institutions should not use any particular payment message for the purpose of avoiding detection of information by any other financial institution in the payment process.
- Subject to all applicable laws, financial institutions should cooperate as fully as practicable with other financial institutions in the payment process when requested to provide information about the parties involved.
- Financial institutions should take into account in their correspondent bank relationship the transparency practices of their correspondents.

13. Concerning information flows, it is the responsibility of the originator's bank to ensure that complete information is included for each wire transfer. However, the beneficiary and cover intermediary banks also have their roles to play in ensuring appropriate flows of information.

14. Monitoring of customers is an essential aspect of effective AML/CFT procedures.<sup>8</sup> However, effective monitoring for AML/CFT purposes requires an understanding by banks of normal and reasonable account activity of their customers so that they have a means of identifying transactions which fall outside the regular pattern of an account's activity. This has an impact on monitoring responsibilities which are not the same for the banks that have direct information on their non bank customers and for the cover intermediary banks that only manage a commercial relationship with other banks for the purpose of effecting payments and thus are not expected to be able to conduct such monitoring on the final customers (see infra §21).

### **A. The responsibility of originators' banks**

15. As expressed in the FATF interpretative note, the ordering (originating) financial institution must ensure that cross-border wire transfer messages contain complete originator information. The ordering financial institution is responsible for the customer due diligence on the originator. It must verify originator information for accuracy and maintain this information in accordance with local regulatory requirements implementing FATF standards.

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<sup>8</sup> Basel Committee on Banking Supervision, *Customer due diligence for banks*, October 2001, paragraph 53.

16. The originator's bank must ensure that the messages it sends to the cover intermediary bank contain originator and beneficiary information. The originator information should be in compliance with local regulatory requirements implementing FATF SR VII and its interpretative note. The information on the beneficiary should at least include its name or an identifier code (such as a Business Entity Identifier<sup>9</sup>). Banks should be encouraged, where possible, to include other identity information on the beneficiary, which is sent directly to the bank of the beneficiary and would consequently be available to intermediary banks in the case of a sequential payment, where this is necessary to limit the risk of customer assets being incorrectly frozen, blocked or rejected or of the cover payment being unduly delayed. The beneficiary information will have been obtained from the originator. Bank policies should address:

- record keeping,
- the verification of originator information,
- the message formats and the circumstances in which the formats should be used,
- the information to include in messages.

17. Consistent with FATF standards and the Basel Committee document *Customer due diligence for banks*, originator banks should include international wire transfers in their ongoing due diligence on the business relationship with the originator and in their scrutiny of transactions undertaken throughout the course of that relationship to ensure that the transactions being conducted are consistent with the institution's knowledge of the customer, its business and risk profile, including, where necessary, the source of funds.<sup>10</sup> Many jurisdictions will authorise banks to use a risk-based approach which should be regularly audited in order to assess its effectiveness.

## **B. The responsibility of cover intermediary banks**

18. As mentioned above, under FATF Special Recommendation VII, the primary responsibility of intermediary banks in sequential payments is to "ensure that all originator information that accompanies a wire transfer is retained with the transfer". In addition, FATF Recommendation 7 on Correspondent banking, as well as paragraphs 49 to 52 of the Basel Committee's document *Customer due diligence for banks*, have defined the due diligence that intermediaries should perform concerning banks that are offered correspondent banking services. This paper is not intended to alter those principles, but rather to highlight the specific issues related to cross border cover payments through correspondent banks, and this section is not meant to apply to other intermediary banks in payments, for instance participants in the payment system of a single jurisdiction, which will be governed solely by its law applying international and national standards.

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<sup>9</sup> An identifier code (such as a Business Entity Identifier) could be used instead of a name, provided it allows the intermediary bank to easily and reliably find the beneficiary's name and allows automated screening against lists of names.

<sup>10</sup> "The degree and nature of monitoring by a financial institution will depend on the size of the financial institution, the AML/CFT risks that the institution has, the monitoring method being utilised (manual, automated or some combination), and the type of activity under scrutiny" FATF, *Guidance on the Risk-Based Approach to Combating Money Laundering and Terrorist Financing*, June 2007, paragraph 3.12.

## **1. Monitoring whether the information is present in messages**

### *(a) Real time monitoring*

19. Banks acting as intermediaries should have reasonable policies in place to ensure, in real time, that required originator and beneficiary fields of cross border cover payment messages are not blank. Cover intermediary banks should develop and implement policies that address the processing of cross border payment messages in which required fields are blank. Where information is missing, the cover intermediary bank should take appropriate measures, in compliance with applicable national law. This could entail, for example, (i) declining to process the transaction; (ii) obtaining the missing information from the originator's bank or the precedent intermediary bank; and/or (iii) filing a report of suspicious activity with local authorities. The cover intermediary bank should document decisions taken and the reasons for them.

### *(b) Ex post monitoring*

20. Cover intermediary banks should develop and implement reasonable policies and procedures for monitoring payment message data subsequent to processing. Such procedures should facilitate the detection of cases where required fields are completed but the information is unclear or incomplete. It is understood that many jurisdictions will allow banks to apply a risk-based approach, and risk factors have been identified by the FATF and the Wolfsberg Group.<sup>11</sup> Cover intermediary banks should implement policies and procedures to detect and address manifestly meaningless or incomplete fields in payment messages, consistent with applicable national law. Responses could include, for example, (i) contacting the originator's bank or precedent cover intermediary bank to clarify or complete the information received in the required fields; (ii) considering (in the case of repeated incidents involving the same correspondent or in the case where a correspondent declines to provide additional information) whether or not the relationship with the correspondent or the precedent cover intermediary bank should be restricted or terminated; and/or (iii) filing a report of suspicious activity with the local authorities. The reasons for decisions taken should be documented.

## **2. Monitoring for suspicious activities**

21. As neither the originator nor the beneficiary are the cover intermediary bank's customers, the cover intermediary bank is usually not in a position to understand the purpose of such transactions, nor conduct CDD on these persons. Consequently, the cover intermediary bank is unlikely to be in a position to determine whether the transaction represented by the cover payment is suspicious, based on an understanding of the activities of the originator and beneficiary. It is, however, possible for intermediaries to monitor transactions that they process to identify patterns of activity that may be suspicious, to report suspicious activities in accordance with their national law, and, where such patterns or activities are associated with a particular correspondent bank, to review the relationship with the correspondent.

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<sup>11</sup> See FATF, *Guidance on the Risk-Based Approach to Combating Money Laundering and Terrorist Financing*, June 2007, in particular paragraph 1.43, and The Wolfsberg Group, *The Wolfsberg Anti-Money Laundering Principles for Correspondent Banking*, 21 October 2002, [www.wolfsberg-principles.com](http://www.wolfsberg-principles.com). Banks should focus on the factors that are relevant when assessing the risk of incomplete transfers being sent.

### 3. **Monitoring against lists of names**

22. The cover intermediary bank in a cross-border cover payment would be required by its national law to screen the originator and beneficiary names against the lists of individuals and entities whose assets must be blocked, rejected or frozen, as applicable in its jurisdiction. Such controls cannot be risk-based.<sup>12</sup>

23. Some cover intermediary banks could be in a situation where screening the originator and beneficiary names against the lists of individuals and entities whose assets must be blocked, rejected or frozen, would duplicate screening conducted by the originator bank. This might, for example, be the case where:

- the list applicable to banks is the same in the different jurisdictions involved in the wire transfer.
- the originator and cover intermediary banks belong to the same corporate group, and all group entities use for their screening a unified list defined by head office, in accordance with the Basel Committee's *Consolidated KYC risk management*,<sup>13</sup> and this list includes names applicable to all the banking group's locations. In this case, the originator's bank should consider, identify, assess and mitigate its legal and compliance risk according to applicable obligations.
- the originator bank voluntarily screens, in the case of outgoing cross-border transfers, originators and beneficiaries names against lists applicable in the jurisdiction of the cover intermediary bank,<sup>14</sup> and does not proceed with transfers if one counterparty is listed in the latter jurisdiction. The objective of the originator bank could be for instance to avoid the legal difficulties that could arise where individuals or entities that were not targeted in the originator's or beneficiary's jurisdiction were listed in the intermediary's jurisdiction, and the funds were frozen in the latter. In this case, the originator's bank should consider, identify, assess and mitigate its legal and compliance risk according to applicable legal and contractual obligations.

24. A cover intermediary bank confronted with this or a similar situation may wish to consider relying on its respondent to conduct the required screening. In jurisdictions that allow this kind of reliance, a cover intermediary bank inclined to pursue this option should do so with the understanding that it remains responsible for compliance with domestic law even though it has outsourced a screening function. The intermediary's enhanced due diligence described in FATF Recommendation 7<sup>15</sup> and paragraph 50 of the paper *Customer due diligence for banks* provide useful guidance on steps the cover intermediary bank should consider in determining whether it is appropriate to rely on a respondent for screening. In

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<sup>12</sup> FATF, *Guidance on the Risk-Based Approach to Combating Money Laundering and Terrorist Financing*, June 2007, paragraph 1.40: "Requirements to freeze assets of identified individuals or entities, in jurisdictions where such requirements exist, are independent of any risk assessment. The requirement to freeze is absolute and cannot be impacted by a risk-based process."

<sup>13</sup> Basel Committee on Banking Supervision, *Consolidated KYC Risk Management*, October 2004, paragraph 19.

<sup>14</sup> The originator bank might also, for the same reasons, take into account the list applicable in the jurisdiction of the beneficiary. We however focus here on the consequences for the cover intermediary bank of the originator bank's screening.

<sup>15</sup> According to the interpretative note to FATF Recommendation 9, Recommendation 9 "does not apply to relationships, accounts or transactions between financial institutions for their clients. Those relationships are addressed by Recommendations 5 and 7."

particular, the respective responsibilities of each institution should be clearly described, and the cover intermediary bank should assess the respondent institution's screening procedures and related controls before entering a correspondent relationship with the respondent and on a periodic basis during such relationship. This could be done for example by conducting, ex post and depending on a risk-based assessment, its own screening on the originator and beneficiary names for a sample of transfers.

#### **4. Monitoring of the correspondent relationship**

25. Cover intermediary banks should also use the information gathered through monitoring to manage their relationships with respondent banks, in accordance with the principles on correspondent banking.<sup>16</sup> Such monitoring will allow the cover intermediary bank to assess whether the respondent bank's activity and AML/CFT controls are consistent with those ascertained at the outset of the relationship and as subsequently updated.<sup>17</sup> Here also, many jurisdictions will authorise banks to use a risk-based approach. Under such an approach, and depending on national requirements as well as the institution's risk assessment, the monitoring might not be conducted in real time, and its frequency and depth would be determined by the results of the risk assessment made by the cover intermediary bank concerning its correspondent banks.

### **C. The responsibility of beneficiaries' banks**

26. The bank of the beneficiary must identify the beneficiary, and verify its identity, in accordance with the standards governing customer due diligence.<sup>18</sup> The beneficiary bank is also responsible for monitoring the activities of its customer, the beneficiary. Under the interpretative note to FATF SR VII, beneficiary financial institutions should have effective risk-based procedures in place to identify wire transfers lacking complete originator information.

27. In the usual case of cover payments – as opposed to “direct sequential” payments where only one single payment message is sent along the payment chain – the beneficiary bank receives two messages, one directly from the originator bank and another which is the cover message from the cover payment chain. Increased transparency on cover payments could enable the beneficiary's bank to take into account the transparency problems it detects in the monitoring of its relationship with the beneficiary on the one hand and with its correspondents on the other hand. For instance, the bank of the beneficiary could be in a position to detect through its risk-based monitoring that elements of the identity of the beneficiary that would have been relevant for banks processing the transactions have been omitted from the message, that there is a discrepancy between the two messages or that an inappropriate message format has been used. In these cases, and according to the relevant legal framework, the beneficiary bank should have procedures and policies in place to decide

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<sup>16</sup> Basel Committee on Banking Supervision, *Customer due diligence for banks*, October 2001, paragraphs 49 to 52.

<sup>17</sup> FATF Recommendation 5 requires that due diligence be conducted on existing relationships at appropriate times. The Interpretative Note refers to the Basel Committee's *Customer due diligence for banks*, October 2001 (see paragraph 24).

<sup>18</sup> As stated in the interpretative note to FATF Recommendation 5: “The CDD measures set out in Recommendation 5 do not imply that financial institutions have to repeatedly identify and verify the identity of each customer every time that a customer conducts a transaction. An institution is entitled to rely on the identification and verification steps that it has already undertaken unless it has doubts about the veracity of that information.” Examples of situations that might lead an institution to have such doubts are given.

whether or not to reject the transfer; to ask for complete or correct information deferring the payment until receipt of the answer; and, when appropriate, to file a suspicious transaction report with its local authorities.

28. Consistent with the interpretative note to SR VII, transparency problems may be considered as a factor in assessing whether a wire transfer or related transactions are suspicious and, as appropriate, whether they are thus required to be reported to the financial intelligence unit or other competent authorities. In some cases, the beneficiary financial institution should consider restricting or even terminating its business relationship with financial institutions that fail to meet transparency standards. The reason for the decision taken should be documented.

#### **D. Due diligence applied by all banks**

29. Consistent with the principles expressed by the Basel Committee in the document *Customer due diligence for banks*, the due diligence described in the three previous sections should be taken into account in all relevant procedures, systems and controls, be part of the training of the relevant staff, and should be included in the scope of the bank's internal audit and compliance function.

30. In addition, banks should review their contractual documentation related to correspondent banking in order to ensure compliance with transparency standards and only enter into contractual relationships with banks adhering to best transparency practices.

#### **E. Customer information and data protection issues**

31. The transmission of customer data to third parties to execute a transaction, which is not unique to cover payments, should not raise specific data protection concerns. In any event, banks should comply with data protection laws and regulation. They should take the steps necessary to ensure that the information they receive and process is used only for the purposes permitted by national law and international standards. In particular any breach of confidentiality or any commercial use of this information should be precluded. Banks should commit to ensuring an adequate treatment of the information given and preclude its use for illegitimate purposes by themselves or any third party.

32. As the new cover payment standards will entail a change in the information given to the cover intermediary banks, customers should be clearly informed that the execution of a transfer in a foreign currency or across borders entails transmission of the appropriate personal information to all cover intermediary banks in another jurisdiction.

### **III. The role of supervisors**

33. As stated in the document *Customer due diligence for banks*,<sup>19</sup> "supervisors have a responsibility to monitor that banks are applying sound KYC procedures and are sustaining ethical and professional standards, on a continuous basis". In particular, supervisors must be satisfied that banks develop and implement appropriate policies, procedures and processes

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<sup>19</sup> Basel Committee on Banking Supervision, *Customer due diligence for banks*, October 2001, paragraph 61.



in their respective capacities as originator banks, intermediary banks in the cover payments chain, and beneficiary banks.

34. Supervisors may take several steps to assess their supervised institutions risk management practices with respect to cover payments. Supervisors should carefully review the risk management practices relating to those operations. Examples of steps that a supervisor may take to evaluate the risk management practices of a financial institution include:

- reviewing whether the institution has a current risk assessment that covers the payments activities, taking all relevant factors into account, including the correspondent relationships involved in the operations, the overall volume and jurisdictions of funds transfers and the role of the institution in funds transfers;
- determining whether the institution has implemented the transparency standards and maintains systems for consistent adherence to the transparency standards to ensure, for example, that banks do not use abbreviated message formats, such as interbank cover payments, to avoid scrutiny of originator and beneficiary information by correspondent intermediaries; supervisors should also be satisfied that originator banks include complete customer information in all cross-border wire transfers;
- evaluating whether the institution has processes for conducting adequate due diligence on correspondent banks that are also involved in cross-border clearing of cover payment transactions;
- reviewing the institution's processes in place for compliance with its national laws relating to transactions that must be blocked, rejected or frozen; and
- reviewing the institution's processes in place for compliance with applicable requirements for: inclusion of data on payment orders and maintenance of data for review; monitoring, reviewing, and reporting suspicious activity; and documentation of determinations made with respect to transactions and accounts.

35. Supervisors should be satisfied that appropriate internal controls are in place to monitor wire transfer activity, that these controls are effective, and that banks are in compliance with supervisory and regulatory guidance. As in other areas, the supervisory process should include not only a review of policies, procedures and processes but also the sampling of some transactions. The frequency and depth of such reviews should match the level of risk. Supervisors should, when warranted, use their supervisory powers to ensure appropriate transparency practices are used.



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