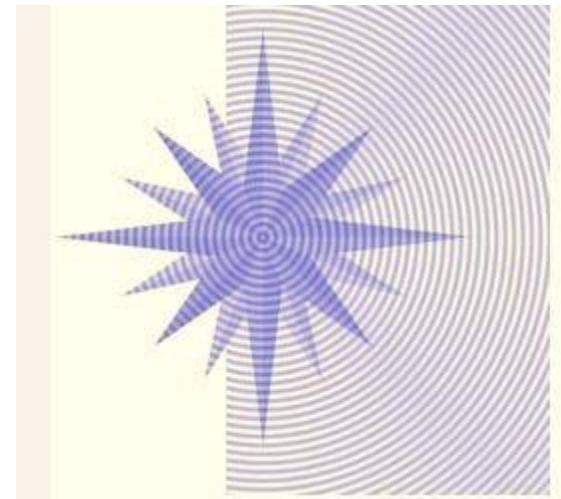


The Wolfsberg Correspondent Banking Due Diligence Questionnaire Publication Guidance October 2017



**the
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Group**

- In response to both an increase in regulatory expectations as well as a call for action from the FSB and the CPMI, the Wolfsberg Group (“the Group”) has **revised its 2004 Anti Money Laundering Questionnaire** for Correspondent Banks
- The revised questionnaire (CBDDQ) aims to set an enhanced, very **reasonable standard for Correspondent Banking Due Diligence**
- **The Group solicited and incorporated feedback on the CBDDQ from US and UK regulators**
- In publishing this revised standard, the Wolfsberg Group will continue to work with the CPMI, the FSB CBCG, utility providers and the wider industry **with the aim of, where possible, reducing any additional data requirements for what are deemed to be higher risk correspondent relationships** as per the Wolfsberg definition and current FATF Guidance
- The **implementation of the CBDDQ will be for each Financial Institution (“FI”)** to manage as per its own policies, procedures, operational realities and risk appetite
- The Group is also conscious that its original questionnaire has been used in multiple other customer type due diligence scenarios and, therefore, while not seeking to prescribe how a revised questionnaire should be used for any other customer type, the Group is nonetheless **mapping the original questions to today’s wording; these questions will be identified as such in the CBDDQ**
- **The Group members have committed to being early adopters of the CBDDQ** and will support the development of FAQs, awareness raising materials and the work being undertaken with KYC utilities to support and promote standardisation across the industry
- In the medium to long term, the enhanced Wolfsberg CBDDQ, if adopted across the industry, and to the extent that it forms the basis of a utility standard, offers the prospect of establishing a better overall standard, **raising the bar on fighting financial crime** and making the international financial system stronger. As a result, **costs of compliance could be trimmed, the speed of new on boarding reduced** but, more importantly, a transparent global standard established **so that Correspondent Banks can operate, more than ever, on a more level playing field, mitigating derisking**

Wolfsberg CBDDQ – The Journey



In **2002**, Wolfsberg published its first Correspondent Banking Principles, in which the Group articulated its vision for, and encouraged the development of, an international due diligence registry for Financial Institutions (FIs)

2002

In February **2014**, the Group revised the DDQ to include an additional question on training (Q24), bringing the total number of questions to 28, and to revise payments question to incorporate reference to the Wolfsberg Transparency Principles issued in 2007.

Later that year, in response to work undertaken at the behest of the G20 by the BCBS, CPMI, the FSB, the Global Partnership for Financial Inclusion ("GPII"), FATF started to increase its focus on Correspondent Banking "Derisking" including a first statement published in [October](#).

2014

By this point, it has become clear that, while the DDQ was still a part of CDD and most banks had a completed version on their public website, it was no longer a source of material information when on-boarding a Correspondent Bank as defined by the Principles.

Instead, Clearing Banks relied on bespoke internal EDD questionnaires to solicit FCC programme details from correspondents. These enhanced questionnaires were designed to meet enhanced regulatory scrutiny of Correspondent Banking relationships.



FATF published its [Guidance on Correspondent Banking Services](#) which set out FATF's views on the RBA, KYCC and the fact that *"that not all correspondent banking relationships carry the same level of money laundering or terrorist financing risks, hence any enhanced due diligence measures have to be commensurate to the degree of risks identified."*

Wolfsberg wrote a lengthy comment letter to FAFT as to its views on managing Correspondent Banking due diligence and risks. Revisions to the DDQ began in earnest.

2016

2004

Published in **2004**, the Wolfsberg AML Questionnaire was comprised of 27 questions. Its purpose was **to act as an aid to FIs** conducting due diligence (DD) on Correspondent Banking relationships, as per regulatory requirements and their own internal policies and procedures.

The Questionnaire was not intended to benchmark CB DD requirements, but rather constituted a preliminary data set from which FIs could then undertake their own individual risk assessment processes.

2015

In **2015**, FATF published a [second statement](#) on derisking emphasizing the trend was continuing and further work was required.

In October the CPML published its Consultative Report on Correspondent Banking which recommended that, e.g., the Wolfsberg Group *"review the templates and procedures used by the different utilities and identify the most appropriate data fields to compile a data set that all utilities should collect as best practice and that all banks have to be ready to provide to banks which require the information."*

The Wolfsberg Group therefore agreed to review its DDQ.

2017

In **March**, a meeting was held with the BCBS, CPML, PMPG, Wolfsberg & key KYC Utility Providers in Paris. The revised Wolfsberg CBDDQ was discussed in the context of setting a new standard for CBDD.

Soft launch of the CBDDQ at the Wolfsberg Forum in **May**.

In **June**, the BCBS published its revised [Sound management of risks related to money laundering and financing of terrorism: revisions to correspondent banking](#)

The Group decided to launch the CBDDQ at SIBOB in **October** in Toronto.

Wolfsberg CBDDQ: Development Steps

03 Questions which may have been reasonable to include from a theoretical risk management perspective, but where documents would be provided and **not** further reviewed were also removed.

Perhaps most importantly, the question set incorporated the feedback received from UK and US regulators, which pointed to the need to complete CB due diligence questionnaires at a Legal Entity level rather than simply at a Group level, as had always been the case in the past.

01 The revised question set was developed through the consolidation of each Wolfsberg member bank's questionnaire, the question sets of two KYC utilities, the consolidated contents of which had seen input and "non-objection" from both UK and US regulators.

02 The consolidated data set covered all the questions which the Wolfsberg member banks **were already either using with their respondents or responding to** as part of their existing CB relationship management processes. The data set was reviewed for duplication and subjected to an objective sense check with respect to the sensitivity of the questions.

The revised Wolfsberg CBDDQ takes into consideration the following principles:

- The questionnaire is designed to meet an **enhanced reasonable, not minimum** standard of due diligence for **correspondent banks** as per the Wolfsberg definition
- FATF R13: which states that for "**cross border correspondent banking**" additional due diligence requirements must be undertaken
- FATF Guidance on Correspondent Banking (October 2016) which states "*Correspondent banking services encompass a wide range of services which do not all carry the same level of ML/TF risks...* the focus of this guidance is correspondent banking relationships that are higher risk, in particular **cross-border correspondent banking relationships involving the execution of third party payments**."
- The integration of Wolfsberg's **Payment Transparency Principles**

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The Wolfsberg CBDDQ Target Audience: Correspondent Banks

- The Wolfsberg Group has an agreed position on the definition of a Correspondent Bank. This is articulated in the Group's 2014 Correspondent Banking Guidance Paper. The Group has also stressed to the FATF, that:

"It is the Group's view that not all correspondent banking activity carries the same level of risk and there are certain types of activity which, if not completely de-scoped from the definition of correspondent banking, could, and should, at a minimum be considered to be lower risk. The risk factors in correspondent banking which generate higher risk situations are those where third party payments, cross border and clearing activities are undertaken. FIs will always take decisions based on their own risk appetite, assessment of customers, as well as their views on their ability to manage risk vis-à-vis regulatory requirements and expectations, which are not always the same."
- The Wolfsberg CBDDQ thereby establishes a very reasonable standard for Correspondent Bank relationships as per the Wolfsberg definition, i.e. the relationships which pose the highest risk and may therefore be more susceptible to derisking
- It is the Group's expectation that **the Group members will begin to use the CBDDQ, either directly or through a KYC utility** (should the utility have adopted the CBDDQ), in a phased approach, with all of their respondents
- In light of the Group's membership and predominance in managing a significant proportion of correspondent relationships, it is our belief that **early adoption will support the uptake of the CBDDQ for all relevant relationships such that an overall better standard can be established, efficiencies in due diligence processes can be gained and derisking can be mitigated**
- Indeed, if the industry adopts the CBDDQ, then **each FI will only have to complete it once**, then engage bilaterally as necessary, with any respondent wishing to follow up on any of the information contained therein

ENTITY & OWNERSHIP

- The questionnaire is now required to be answered on a Legal Entity (LE) Level, all these questions serve to understand who/what is the customer

PRODUCTS & SERVICES

- Questions on correspondent banking, followed by mostly binary Y/N questions as to whether or not an FI offers certain products & services

AML & SANCTIONS PROGRAMMES

- Programme info such that the overall control framework, as compared to information about legal entity structure, ownership, products and services, can be assessed for its adequacy

ANTI-BRIBERY & CORRUPTION PROGRAMME

- Programme info such that the overall control framework, as compared to information about legal entity structure, ownership, products and services, can be assessed for its adequacy

POLICIES & PROCEDURES

- Further detail requiring more specific information on what is actually included in the FI's P&Ps, including a focus on certain newer types of controls (e.g. negative news screening)...

AML & SANCTIONS RISK ASSESSMENTS

- Seeks to understand if, and if yes, to what extent and how frequently, an FI undertakes what is referred to as an Enterprise Wide Risk Assessment (EWRA)

KYC, CDD & EDD

- Detail of an FI's due diligence process: ID&V, questions asked as part of CDD, factors considered when determining a customer's risk classification, screening, periodic review process, EDD triggers

MONITORING & REPORTING

- Details on monitoring, whether manual or automated, for which customers & transactions and how alerts from monitoring systems are reviewed, escalated and reported

PAYMENT TRANSPARENCY

- References the Wolfsberg Transparency Principles, controls in place to support required & accurate info for originators & beneficiaries, and the processes in place around Requests for Information (RFIs)

SANCTIONS

- What policies, procedures & processes are in place to ensure compliance with international sanctions programmes, screening solutions, lists, processes exist to identify and interdict circumvention attempts

TRAINING & EDUCATION

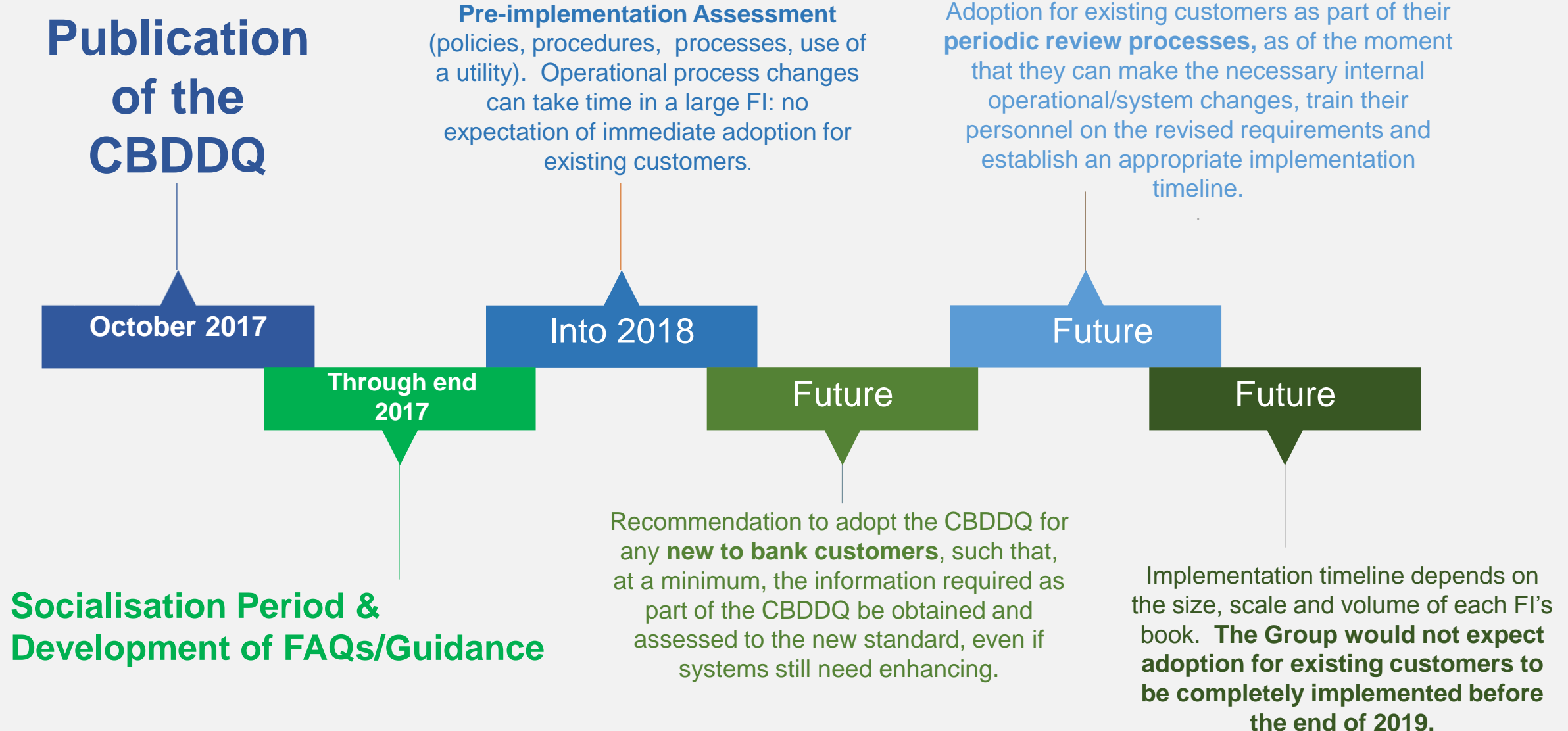
- All staff must be appropriately trained to understand financial crime risks, how to identify suspicious activity, transactions, circumstances, scenarios & how to escalate concerns

COMPLIANCE TESTING & QUALITY ASSURANCE

- Are processes in place which test compliance with the FI's policy and procedural requirements such that both first and second line controls are tested and enhanced continuously

AUDIT

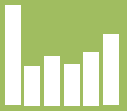
- What type of audit mechanism is deployed in the responding FI, what is covered in terms of assessing financial crime compliance related requirements, as well as how findings are tracked and monitored





Publication by The Wolfsberg Group

The CBDDQ will be published in a PDF format which can be downloaded, completed and saved. The CBDDQ can be obtained by emailing ddq@Wolfsberg-principles.com



Publication by FI's

Until now, FIs published a completed and signed Wolfsberg questionnaire on their websites. This was never a requirement put forward by the Group. Going forward, The Wolfsberg Group is not mandating that each FI should publish a completed and signed CBDDQ on its website. There are multiple reasons for this, notably given the more complete information on FCC controls, which could be abused by actors seeking to understand how best to circumvent an FI's controls for illicit purposes.



Signatories

Previously the questionnaire was signed by the Group MLRO or Head of FCC. In today's regulatory environment, the expectation is that the questionnaire, when completed and shared, whether through a Utility or bilaterally, should be signed by the Head of the submitting FI's Correspondent Banking business, or equivalent. Some FIs may still choose to have their FCC executive sign alongside the Business Head.



Validity

While not prescribing any particular period, in considering the degree to which FIs wish to rely on the information and the fact that most higher risk relationships, the target of the CBDDQ, are subject to an annual periodic review, then it is recommended to ensure that any changes to the information held in a questionnaire, or via a utility, be updated annually.

Answers expected on a Legal Entity (LE) Level.

LEGAL ENTITY

BRANCHES

Option to enable a call out for branches with material variance from group response, e.g. product offering and client base.

There are no correct or incorrect responses!

YES/NO

**NO
RESPONSE**

An explanation will still be required when a “No” response is chosen. This does not imply that a “No” response is incorrect and conversely also allows for an explanation when a “Yes” response is chosen.

As regulatory expectations have evolved, it is an equally natural evolution that the Wolfsberg CBDDQ has enhanced the questions such that free text responses may be included.

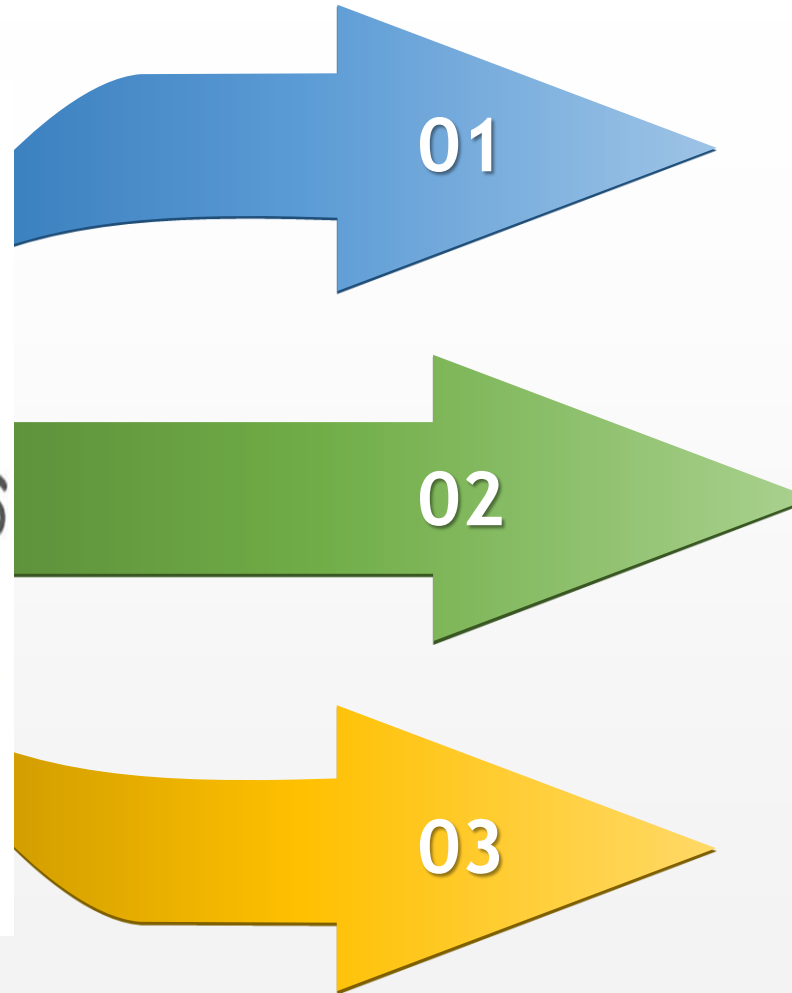
FREE TEXT

**RISK
ASSESSMENT**

Free text may be seen to complicate the due diligence process, but if an FI is thorough in its risk assessment process, then a questionnaire with only binary Y/N answers would be insufficient in meeting its own CDD requirements.

Standardisation and effectiveness should not be at the expense of an appropriately managed due diligence and risk mitigation framework. Relevant FI personnel need to be trained to understand & manage risk appropriately, including being able to understand and assess free text responses

**RISK
MANAGEMENT**



The Wolfsberg Group has never stipulated that the mere fact of obtaining any information from a questionnaire (whether from the original or the new Wolfsberg CBDDQ) suffices in terms of meeting any FI's regulatory requirements from a due diligence perspective.

The Wolfsberg CBDDQ is designed to set a reasonable data standard which allows for the collection of certain data points, which will, in turn, allow an FI to undertake its risk assessment process, as per its policies and procedures, such that a risk rating can be assigned to the customer in question and the appropriate level of controls implemented thereafter, including frequency of periodic reviews, need for a site visit and enhanced monitoring.

Each FI must therefore undertake a risk assessment process which is duly documented and allows for an appropriate financial crime risk management framework to be implemented.

Conclusions

The Wolfsberg Group will continue to work with the BCBS, the CPMI, FATF, FSB CBCG, KYC Utilities and, above all, its respondents, to ensure that:

- the premises of the revisions of the CBDDQ are well understood, including the principle that a completed questionnaire is **the first, not the only, step in an appropriately derived risk assessment process** for each FI
- **regulators and supervisors** understand that the CBDDQ **constitutes a reasonable standard of due diligence** for correspondent banking and **the role that they must play in fostering the adoption** of a standard such as is being proposed by the CPMI to ensure that regulatory expectations do not contribute to further derisking
- in accepting that the **original questionnaire** has been adopted in a multitude of non-correspondent banking due diligence processes, it has therefore been **amended to reflect the work completed for correspondent banking due diligence**, but while it will be made available (original questions highlighted in the new CBDDQ), the Group will not be prescribing what other types of customer due diligence processes it will be used for
- **guidance will be released on an ongoing basis** as the questionnaire is published will serve to enhance understanding and foster adoption of a new standard
- working with all parties, will seek to foster the implementation of this new, reasonable standard for correspondent banking due diligence, which will include **supporting the capacity building efforts** of relevant supranational, regulatory and supervisory bodies
- along with **promoting efficiency and effectiveness**, this will establish a better overall standard, **raise the bar on fighting financial crime**, make the international financial system stronger and support a **transparent global standard** established so that Correspondent Banks can operate on a more level playing field and mitigate derisking.