

Regulatory Alert

Financial Services Regulatory Insight Center



AML in the news... | May 2018

Wolfsberg Group Releases New Correspondent Banking Due Diligence Questionnaire (CBDDQ) and related guidance materials

Key points

- **Applicability:** The CBDDQ can be used for FIs that engage in cross-border and/or other higher risk correspondent banking relationships.
- **One Form at the Entity Level:** One CBDDQ form is to be completed at the Legal Entity Level (e.g. parent, head office, subsidiary level) and if any branch differences exist, they must be documented in the form.
- **Expanded Scope:** The CBDDQ contains over 100 Questions and an expanded financial crimes scope.
- **Approvals:** The Questionnaire sets forth expanded approval requirements- specifically by the head of the Correspondent Bank division AND the Global Head of Financial Crimes Compliance or equivalent.
- **Implementation:** The Wolfsberg Group recommends institutions begin to use the CBDDQ first with new customers and expand to existing customers as part of those customers' periodic reviews.
- **Anticipated Benefits:** The harmonized standards, over time, should result in: lower costs, improved financial crimes compliance, enhanced efficiencies in know-your-customer (KYC) utilities and mitigated decline in correspondent banking.
- **New, Separate Financial Crimes Compliance Questionnaire created for other customer types:** The Wolfsberg Group has also created a separate and distinct questionnaire, the FCCQ, for institutions to utilize in their due diligence processes for non-correspondent banking relationships (other customer types).

Background

The Wolfsberg Group (Group) stated that it has revised its AML Questionnaire in response to both an increase in regulatory expectations and a call for action from international standards setters to strengthen and build efficiency into due diligence processes. The Group received feedback in the revision process from U.S. and UK regulators, and support has been received from the Basel Committee on Banking Supervision, the Committee on Payments and Market Infrastructures, the Financial Action Task Force (FATF) and the Financial Stability Board.

Applicability

On February 22, 2018, the Wolfsberg Group publicly released an updated Correspondent Banking Due Diligence Questionnaire (CBDDQ) that should be used by Financial Institutions (FIs) engaging in cross-border and/or other higher risk correspondent banking relationships. The 2014 Questionnaire is retired.

One form is to be completed at the Legal Entity Level, and any branch differences must be documented

The CBDDQ Instructions establish that the Questionnaire should be populated at the Legal Entity (LE) level- e.g. at the ultimate parent/ head office, subsidiary level. The answers populated are to reflect the LE perspective, but need to also capture information on behalf of each of its branches. Should any differences exist between the LE and one (1) of its branches, the specific differences need to be highlighted and captured in the Questionnaire. If a branch's business activity (products offered, client base, etc.) is significantly different than its head office, the branch is to complete a separate Questionnaire. Each Questionnaire should only cover one (1) LE.

The CBDDQ contains over 100 Questions and an expanded financial crimes scope

It is noteworthy that the revised Questionnaire is 17 pages long, and consists of 110 questions. This is a significant increase from prior version, which included 28 questions. The Group suggests that although "the increase in the number of questions appears dramatic," the revised set of questions was developed by consolidating the questionnaires being used by each of the Wolfsberg Group members and two KYC utilities. They anticipate the need for individual financial institutions to ask additional questions would arise only in exceptional cases.

Across its 110 questions, the CBDDQ probes for information regarding an FI's AML efforts and controls, inclusive of its: quality assurance/compliance testing, audits, training and education, sanctions, payment transparency, monitoring and reporting, Know Your Customer (KYC)/Customer Due Diligence (CDD)/Enhanced Due Diligence (EDD), risk assessment, policies and procedures, use of third parties (for outsourced responsibilities), board and management reporting, experience/ expertise of the appointed [AML/Counter Terrorist Financing (CTF)/Sanctions] Officer and overall AML/CTF and Sanctions Program.

Some notable information being sought includes the LE's beneficial ownership status and public listing (as applicable) and whether the LE has:

- Performed a gap analysis against US and EU requirements as part of their policies and procedures efforts
- Conducted control effectiveness evaluation of specific program components, as part of its risk assessment (not just design effectiveness)
- Defined the Institution's risk tolerance or similar risk boundaries for their business
- Automated or manual KYC/CDD/EDD processes particularly around screening for adverse media and politically exposed persons (PEPs) and for monitoring suspicious activity
- Evaluated KYC metrics on current and past periodic and trigger event due diligence reviews
- Developed/Executed training that covers conduct and culture.

Importantly, it also contains specific questions about FIs Anti-Bribery and Corruption (ABC) efforts and controls, which increasingly fall under the financial crimes umbrella, particularly in the U.K. [Therefore]The new CBDDQ reflects industry shifts toward more inclusive financial crimes risks and compliance programs. The CBDDQ should also align with current FATF guidance (Recommendation 13 addressing Correspondent Banking due diligence and the October 2016 Guidance on Correspondent Banking).

Approvals

The revised CBDDQ sets forth requirements for sign-off by the global head of the correspondent banking business line AND by the Global Head of Financial Crimes Compliance or equivalent.

Implementation

The Wolfsberg Group recommends that institutions begin using the CBDDQ first with new customers, and later expand to existing customers as part of those customers' periodic reviews. Completed questionnaires should be reviewed at least annually.

Anticipated Benefits

Over time, adoption of the CBDDQ is expected to set reasonable, and harmonized standards (with minimal additional data requirements) for correspondent banking due diligence. The Wolfsberg Group's view is that this should result in lower costs, improved financial crimes compliance, reduced need to obtain additional data requirements, lowering of compliance costs, mitigation of the decline in correspondent banking, and enhanced efficiencies in KYC utilities. It should also provide a common starting point for correspondent banking risk assessments, greater access to finance, and further the development of trade and financial inclusion.

A separate and new Financial Crimes Compliance Questionnaire

The Wolfsberg Group has also created a separate and distinct Financial Crimes Compliance Questionnaire (FCCQ) questionnaire for non-correspondent banking due diligence processes. The Group stated that it purposely has not prescribed how, or for which customer types, the questionnaire should be used. It is a shorter version of the CBDDQ and contains a basic set of questions to address industry demand.

The CBDDQ, the FCCQ, and supporting guidance materials, including Frequently Asked Questions, are available on the Web site of the Wolfsberg Group (www.wolfsberg-principles.com).

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