



*International AML/CFT  
Standards for Supervision*

**SEACEN / World Bank**

**Regional Advanced Workshop for  
Banking Supervisors on AML/CFT**

**Kuala Lumpur, Malaysia**

**April 17, 2007**

**Nicolas Burbidge**



OSFI  
BSIF

Canada 

Purpose of this module

**To review the Basel AML/CFT standards, and the FATF standards as they affect banks, and how they complement each other**



OSFI  
BSIF

# BCBS

- **Core Principles (rev. Oct. 06)**
- **October 2001 Customer Due Diligence Paper**
- **October 2004 Consolidated KYC Risk Management Paper**



# Basel Core Principles

- **There are 25 Core Principles, considered to be universally applicable**
- **All major bank supervisory groups have endorsed, including the SEANZA (South East Asia, New Zealand, Australia) Group**
- **The members of SEANZA are Australia, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand, Bangladesh, India, Iran, Nepal, Pakistan, Papua New Guinea and Sri Lanka.**
- **Regarded as minimum standards**



# Key Principles

- **Key AML Core Principle is No. 18 “Abuse of Financial Services”**
- **Several other Core Principles are also important to AML:**
  - # 3 – Fit and Proper criteria
  - # 4 - Ownership of financial institutions
  - # 7 - Risk Management process
  - # 12 – Monitoring country risk
  - # 15 – Operational Risk
  - # 17 – Internal control and audit
  - # 19 – Thorough understanding of individual banks
  - # 23 – Supervisory tools for corrective actions
  - # 24 – Consolidated Supervision
  - # 25 – Home / Host Relationships



# Key Principles

- **Key AML Core Principle is No. 18 “Abuse of Financial Services”**
- **Several other Core Principles are also important to AML:**
  - # 3 – Fit and Proper criteria
  - # 4 - Ownership of financial institutions
  - # 7 - Risk Management process
  - # 12 – Monitoring country risk
  - # 15 – Operational Risk
  - # 17 – Internal control and audit
  - # 19 – Thorough understanding of individual banks
  - # 23 – Supervisory tools for corrective actions
  - # 24 – Consolidated Supervision
  - # 25 – Home / Host Relationships



# Core Principle 18

**“Supervisors must be satisfied that banks have adequate policies and processes in place, including strict “know-your-customer” rules, that promote high ethical and professional standards in the financial sector and prevent the bank from being used, intentionally or unintentionally, for criminal activities. “**



# Core Principle 18

**“Supervisors must be **satisfied that banks have adequate policies and processes in place**, including strict “know-your-customer” rules, that promote high ethical and professional standards in the financial sector and prevent the bank from being used, intentionally or unintentionally, for criminal activities. “**





# Core Principle 18

**“Supervisors must be satisfied that banks have adequate policies and processes in place, including strict “know-your-customer” rules, that promote high ethical and professional standards in the financial sector and prevent the bank from being used, intentionally or unintentionally, for criminal activities. “**



# Core Principle 18

**“Supervisors must be satisfied that banks have adequate policies and processes in place, including strict “know-your-customer” rules, that **promote high ethical and professional standards in the financial sector** and prevent the bank from being used, intentionally or unintentionally, for criminal activities. “**



# Core Principle 18

**“Supervisors must be satisfied that banks have adequate policies and processes in place, including strict “know-your-customer” rules, that promote high ethical and professional standards in the financial sector and **prevent the bank from being used, intentionally or unintentionally, for criminal activities.** “**



# Other Basel Guidance

- **Customer Due Diligence Paper, October 2001**
- **Consolidated KYC Risk Management Paper, October 2004**



# Oct 2001 CDD Paper

- **Laurent and Richard were members of the group that drafted this paper**
- **Emphasises importance of KYC standards**
- **Essential elements of KYC standards:**
  - Customer acceptance policy
  - Customer identification
  - General Identification requirements
  - Specific Identification issues
- **Ongoing Monitoring of accounts, transactions**
- **Risk Management**
- **The Role of (Bank) Supervisors**
- **Implementation of KYC standards in a cross-border context**



# FATF

- **Formulates International AML and CFT standards**
  - 40+9 Recommendations
  - Recognized by FSF, IMF, WB, UN
- **Assesses its members' compliance with these standards**
  - Feedback on how standards are working
- **Typologies**
  - Research to keep up with new threats



# FATF - more

- **Outreach**
  - FSRBs / Associate Members
  - Growing contacts directly with private sector
- **Standards are not international law**
  - Member countries have agree to implement the Standards in their laws
  - Aim is a consistent, global approach
- **Standards cover more than the financial sector**
  - Legal framework, law enforcement, non-financial businesses
- **Membership is widening**
  - China, India, South Korea observers



# Key FATF standards for banks

- **Recommendation 5 – Customer Due Diligence and Record-keeping**
  - No anonymous accounts/fictitious names
  - Sets out the points in the business cycle when CDD is required.
  - Identify the customer
  - Verify corporate existence and authorized persons
  - Identify the beneficial owner/determine if customer is acting for someone else
  - Gather info on the purpose of the relationship
  - Ongoing due diligence, enhanced for higher risk categories
  - Permits simplified or reduced measures for low risk situations, except where there is suspicion of ML or TF
  - Risk based approach permitted
  - Terminate relationship if CDD can't be completed





# Key Standards Contd.

- **Recommendation 6 - Politically exposed persons (PEPs)**
- **Recommendation 7 – Correspondent Banking**
- **Recommendation 8 – Misuse of technology, and non- face-to-face customers**
- **Recommendation 9 – Reliance on Intermediaries or Third Parties for CDD**
- **Recommendation 10 – Transaction Records**
- **Recommendation 11- Complex or Unusual Transactions**



# Key FATF standards for bank supervisors

- **Recommendation 23**
  - Adequate supervision; effective implementation of Recommendations
  - Designated competent authority
  - Fit & proper controls
  - Core Principles supervision applied
- **Recommendation 29**
  - Supervisors should have adequate supervisory powers
  - On site inspections
  - Access to records
  - Sanctions
- **Recommendation 31**
  - Co-operation with other domestic agencies



# Some comparative notes and observations

## FATF

- **Recommendations developed by policy makers, law enforcement officials and legal experts**
- **Recommendations apply to countries**
- **Recommendations represent minimum standards for compliance**
- **Assesses members' compliance**

## Basel

- **CPs and guidance developed by bank supervisors**
- **Guidance applies to banks and banking supervisors**
- **Guidance is risk-based and addresses the quality of risk management**
- **IMF/WB assess compliance (FATF effectively assesses CP 18)**



# Timelines

- **1990: FATF develops original Recommendations**
- **1996: FATF revises Recommendations**
- **1997: Basel releases Core Principals**
- **2001: Basel issues CDD paper**
- **2003: FATF revises Recommendations; adds CFT Special Recs.**
- **2006: Basel revised Core Principles**

