

# RAPID RESPONSE BRIEF

## Implications of the New Wolfsberg Group Correspondent Banking Due Diligence Questionnaire

### Background

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On February 10, 2023, the **Wolfsberg Group released version 1.4** of the *Correspondent Banking Due Diligence Questionnaire* (CBDDQ). The questionnaire<sup>1</sup> contains a new section focused on fraud and is accompanied by various individual enhancements throughout.

Correspondent banking remains a **high-risk activity** due to the numerous threats conveyed through the financial system's safety and soundness. As a result, the service remains critical and requires risk-based due diligence controls. Therefore, frequent updates not only to **Wolfsberg's Financial Crime Principles**, but also to the CBDDQ and guidance, are necessary.

### Changes

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As noted, the CBDDQ added an entirely new section on fraud (section 14). This likely reflects the increase in fraud globally and the potential for correspondent banking to play a significant role in the laundering of fraud proceeds, as well as a movement among many institutions to have fraud and anti-money laundering (AML) teams working more closely to better address the risks, together.

In addition to the new fraud section, the CBDDQ contains modifications notably relating to:

- Ownership of a virtual banking licenses (question 9);
- Additional types of higher-risk customers, such as used car dealers and general trading companies (question 76);
- New queries on whistleblower policies (question 27), employee escalations (question 49 i), customer exits (question 49 l), periodic reviews (question 74), vendor sanctions tools (question 84 b);
- Greater transparency on request for information (RFI) processes (questions 88-89) and data quality management (question 87), such as alphabetizing section lists for better reconciliation.

The questionnaire has 132 questions and additional questions may be warranted with the widening requirements on sanctions, cybercrime, and the potential environmental, social and governance (ESG) requirements. Respondent banks are expected to update responses within 18 months or sooner.

1. The CBDDQ is also accompanied by an updated Financial Crime Compliance Questionnaire (FCCQ) which is a streamlined form focusing on controls.

## US Regulatory Perspective

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US regulators, such as the **Federal Reserve**, remain mindful of the correspondent threats to the US financial system, especially as the Biden administration integrates corruption and other **national priorities** into a cohesive financial crime framework.

Underscoring this point, US regulators fined the **National Bank of Pakistan** (US\$20.4 million) and **Danske Bank** (over US\$2 billion) last year for deficiencies arising from poor correspondent banking controls. The **U.S. Department of Treasury** expects robust controls to be applied reasonably to limit risks and to achieve compliance with all requirements relating to correspondent accounts.

## Growing European and UK Responses

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- Regulators in the United Kingdom (UK) and Europe are becoming increasingly aware of the implications of correspondent banking risks. Enforcement actions on Deutsche Bank and Danske Bank underscore this point. Germany's **Federal Financial Supervisory Authority (BaFin)** threatened to impose a fine on Deutsche Bank.
- The **UK's Financial Conduct Authority (FCA)** fined Ghana International Bank £5.8 million for poor correspondent banking controls. The Bank provided correspondent banking services exposing the UK financial sector to risk.
- The **Jersey Financial Services Commission (JFSC)** also imposed a £498,000 penalty on Lloyds Bank Corporate Markets Plc (Jersey Branch) for failing to identify the correspondent banking relationship adequately.
- The **European Commission** has been improving safeguards and requiring stricter controls around correspondent banking, as noted in an **earlier survey**. The recent European response to the Ukraine crisis has started excluding certain Russian banks from the **SWIFT payment messaging system**, effectively curtailing their access to a key channel for correspondent banking globally.

## Implications of Sanctions

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Not surprisingly, the widening sanctions on Russia continue to **restrict financial** and trade access to correspondent banking and trade networks. Subsequently, astute observers will see increasing risks to correspondent banking networks to apply maximum pressure on Russia and its partners.

As a result, correspondent banks, and their staff, need to be alert to sanctions evasion. Likewise, respondent banks are vulnerable to sanctioned banks seeking financial services using a respondent bank as the channel.

## Practical Advice for Compliance Officers

### Respondent Banks

- Compliance officers should highlight the changes to senior management and appropriate functions.
- The responsible parties should download the CBDDQ or FCCQ and review the forms accordingly.
- Compliance officers should assess the institution's policies, procedures, and controls related to the new and updated questions, and work with their organization's first line of defense to make any necessary updates or enhancements.
- In responding to the new and updated questions, the responsible parties may need appropriate outreach to the fraud function, who may not be aware of the CBDDQ or due diligence process.
- Additional Wolfsberg video training can be found [here](#).

### Correspondent Banks

- Correspondent banks should communicate to respondent banks any expectations related to new CBDDQ information, such as when questionnaires need to be updated for periodic review.
- Compliance officers should update internal policies and procedures, if required, on due diligence, notably fraud.
- Where appropriate, internal documentation and training programs should reflect the recent changes. Guidance documents and risk appetite statements may need to be reviewed.
- Internal processes, especially if automated, may need to be updated.
- Correspondent banks should consider their risk appetite related to the new or updated questions, and how they will evaluate respondent bank responses.

## Authors

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## About ACAMS

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ACAMS is the largest international membership organization dedicated to providing opportunities for anti-financial crime (AFC) education, best practices, and peer-to-peer networking to AFC professionals globally. With over 100,000 members across 180 jurisdictions, ACAMS is committed to the mission of ending financial crime through the provision of anti-money laundering/counterterrorism-financing and sanctions knowledge-sharing, thought leadership, risk-mitigation services, ESG initiatives, and platforms for public-private dialogue. The association's CAMS certification is the gold-standard qualification for AFC professionals, while the CGSS certification is its premier specialist qualification for sanctions professionals. ACAMS' 60+ Chapters globally further amplify the association's mission through training and networking initiatives. Visit [acams.org](https://www.acams.org) for more information.