



International Guidelines and Standards


CH – 4 KYC/AML PART A

Basel Committee on Banking Supervision (BCBS)

✓ BCBS is the global standard-setter for banking regulations & AML guidelines  

✓ It promotes banking supervision, customer due diligence & risk management  

✓ Ensures banks prevent unintentional involvement in money laundering & terrorism financing  

 **Example:** BCBS guidelines require banks to implement **Know Your Customer (KYC) & risk assessment policies.**


4.1.1 Prevention of Criminal Use of the Banking System (1988)

✓ Banks should ensure customers are properly identified  

✓ Discourage transactions that appear suspicious or illegitimate



✓ Cooperate with law enforcement agencies to prevent money laundering  

 **Impact:** Prevents reputational damage & fraud risks for banks.

 **4.1.2 Core Principles for Effective Banking Supervision (1997, Updated 2012)**

✓ Established 25 Core Principles for banking supervision 📜🏛️

✓ Principle 29 (2012): Banks must have AML/CFT policies to prevent abuse of financial systems 💰🚨

📌 Example: Banks must have customer due diligence (CDD) & suspicious transaction monitoring.

📌 4.1.3 Sharing of Financial Records for Terrorist Financing (2002)

✓ Encouraged cross-border financial intelligence sharing 🌐📜

✓ Two key mechanisms:

- Between government agencies of different countries 🤝🏛️
- Within financial institutions operating in multiple jurisdictions



📌 Example: A UK bank shares terrorist funding data with US regulators to track illicit transactions.

📌 4.1.4 General Guide to Account Opening & Customer Identification (2003)

✓ Guidelines on customer acceptance policies & ongoing transaction monitoring 🔍📜


✓ Emphasized KYC compliance & cross-border banking risk management 🌐💰

📌 Example: Banks must verify personal & business customer identities before opening accounts.

4.1.5 Due Diligence for Cross-Border Wire Transfers (2009)



 Introduced transparency norms for international money transfers 

 Banks must ensure customer details are included in payment messages 




 Example: SWIFT wire transfers must include sender & receiver details to prevent money laundering.

4.1.6 Sound Management of Money Laundering & Terrorism Financing Risks (2014, Revised 2020)


 Comprehensive guide on implementing FATF AML/CFT standards 

 Covers risk-based approach, customer due diligence & transaction monitoring 

4.1.6.1 Key Risk Management Guidelines

 Category	 Requirements	 Implementation
Risk Assessment	Identify money laundering risks at country, sector & bank level	Apply appropriate risk mitigation measures
Governance	Board of directors must oversee AML/CFT policies	Ensure compliance with FATF & Basel guidelines

Three Lines of Defense	Business units, compliance function & internal audit must work together	Strengthen risk management framework
Transaction Monitoring	Banks must use automated tools for suspicious activity detection	Monitor high-risk transactions in real time
Customer Acceptance Policy	Apply basic due diligence for all customers & enhanced checks for high-risk clients	Identify beneficial owners of accounts
Ongoing Monitoring	Track customer transactions & update KYC records regularly	Prevent illicit financial activities
Data Management	Maintain transaction records & provide reports to regulators	Facilitate investigations & compliance
Suspicious Transaction Reporting	Report suspicious activity to FIUs & freeze illicit assets	Strengthen AML enforcement
Cross-Border AML Compliance	Coordinate AML policies across banking groups	Ensure compliance with global standards



 **Example:** A global bank **implements automated risk monitoring systems to track suspicious transactions in real time.**

 **Final Summary Table** 

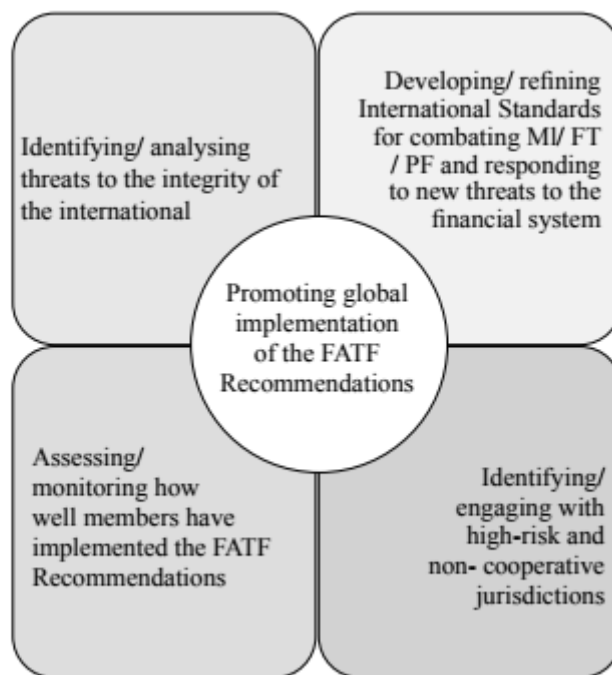
 BCBS Guidelines	 Key Focus	 Impact
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1988 AML Guidelines	Prevent criminal misuse of banking systems	Banks must verify customers & report suspicious activities
1997 Core Principles	Banking supervision standards	Ensures compliance with KYC & AML policies
2002 Cross-Border Records Sharing	International intelligence-sharing	Helps track terrorist financing globally
2003 Account Opening Guide	KYC & due diligence	Ensures banks verify customer identities
2009 Wire Transfer Due Diligence	Transparency in money transfers	Prevents laundering via SWIFT transfers
2014/2020 AML Risk Management	Comprehensive AML/CFT framework	Banks must apply risk-based AML strategies

 **Explanation of Difficult Terms** 

 Term	 Explanation
AML (Anti-Money Laundering)	Policies preventing criminals from disguising illegal money as legal income.
CFT (Counter Financing of Terrorism)	Measures to stop terrorist organizations from receiving funds.
KYC (Know Your Customer)	Process of verifying customer identity to prevent fraud & financial crimes.
FIU (Financial Intelligence Unit)	National agency that analyzes & reports suspicious financial transactions.
Wire Transfer	Electronic fund transfer between banks, often used for cross-border transactions.


FATF (Financial Action Task Force)	International organization setting AML/CFT global standards.
Risk-Based Approach (RBA)	Financial institutions allocate AML resources based on risk levels.
Beneficial Owner	The real person behind a financial transaction, who ultimately owns the funds.



Financial Action Task Force (FATF) & Global AML/CFT Standards



4.2 Financial Action Task Force (FATF)

 FATF was established in 1989 at the G-7 Economic Summit in

Paris  

 Sets global standards for Anti-Money Laundering (AML) & Counter-Terrorist Financing (CFT)  

✓ Comprises 39 members (37 jurisdictions & 2 regional organizations) 🌐 🇪🇺

📌 Example: FATF's "40 Recommendations" & "9 Special Recommendations" set the foundation for global AML/CFT compliance.

📌 4.2.1 FATF Standards & Recommendations

✓ FATF's 40+9 Recommendations form the core of AML/CFT regulations 📄 🔍

✓ Revised in 2012 as "International Standards on Combating Money Laundering and Terrorist Financing" 🏛️ 🚓

✓ Reviewed & updated regularly based on emerging risks 💰 📊

📌 Impact: These recommendations help financial institutions, regulators, and governments implement strong AML/CFT policies.

🔍 4.2.1.1 FATF Recommendations for Banks

🔍 Category	📄 Key Requirements	🔍 Impact
Risk-Based Approach	Banks must assess & mitigate ML/TF risks	Strengthens financial security
Customer Due Diligence (CDD)	Verify customer identity before transactions	Prevents financial fraud
Record Keeping	Maintain transaction & KYC records for 5+ years	Ensures regulatory compliance

Politically Exposed Persons (PEPs)	Enhanced due diligence for high-risk individuals	Reduces corruption risks
Correspondent Banking	Assess AML/CFT compliance of foreign banks	Ensures secure global banking
New Technologies	Identify ML/TF risks in fintech & digital payments	Prevents cyber financial crimes
Wire Transfers	Include accurate sender/receiver details	Ensures transparency in transactions
Internal Controls	Implement AML/CFT programs at group level	Strengthens compliance culture

 **Example:** A bank **must verify customers, report suspicious transactions, & track wire transfers to prevent money laundering.**

4.2.2 FATF's Statements on Deficiencies in AML/CFT Compliance


 **FATF reviews countries' AML/CFT policies & issues advisories**



 **Highlights weaknesses in jurisdictions failing to meet FATF standards**  




 **Get the latest FATF list of high-risk jurisdictions:**

 [FATF High-Risk & Monitored Jurisdictions](#)

 **Example:** Countries with weak AML policies may face **global banking restrictions & financial sanctions.**

📌 4.2.3 High-Risk & Non-Cooperative Jurisdictions (FATF Black & Grey Lists)

🔍 FATF's Two Lists

 List Type	 Description	 Examples (as of 2022)
Black List ⚠️	Countries with critical AML/CFT deficiencies	Iran, North Korea 🚀
Grey List ⚠️	Countries with AML risks but committed to improvements	23 countries, including UAE, Pakistan, Turkey

✅ **Black-listed countries face economic sanctions & financial restrictions** 🌍 🚓

✅ **Grey-listed countries must improve AML/CFT laws to avoid blacklisting** 📜 🏠

📌 **Example: Iran is blacklisted, meaning global banks cannot conduct business with its financial institutions.**

📌 4.2.4 High-Risk Sectors & Emerging Threats

✅ **FATF studies high-risk sectors for money laundering vulnerabilities** 🌍 📜

✅ **Identifies new financial crime trends & advises policy responses**



📌 **Major FATF Typology Studies:**

- **Weapons of Mass Destruction Financing (2012)** 🚀 💰
- **Football Sector & Sports Corruption (2009)** ⚽ 🏆

- Free Trade Zones (2010) 📦🌐
- Non-Profit Organizations & Charity Abuse (2014) 🙏🏦
- Diamond & Precious Metal Laundering (2014) 💎🔷

📌 Example: FATF warned that **terrorist groups may misuse charities** for funding operations.

📌 4.2.5 Mutual Evaluation of Countries

✅ FATF evaluates countries' AML/CFT compliance through a peer-review process 📄✅

✅ Methodology revised in 2013 for enhanced effectiveness 🏦📊

📌 Evaluation Areas:

1 **Technical Compliance:** Rates compliance levels with FATF's 40 Recommendations 📄📊

2 **Effectiveness:** Assesses real-world AML/CFT implementation 🔍💰




📌 FATF's 2021 Findings:

- 76% of countries were "Largely Compliant" with FATF Recommendations ✅
- 45% achieved a "High or Substantial" effectiveness rating



📌 Example: Banks in compliant countries can more easily access international financial networks.

🏦 Final Summary Table 📝

 FATF Component	 Key Function	 Impact
FATF 40+9 Recommendations	Global AML/CFT standards	Guides banks & regulators in preventing financial crimes
Black & Grey Lists	Identifies high-risk countries	Encourages AML/CFT policy improvements
Sector-Specific Research	Investigates ML/TF vulnerabilities	Helps regulate new & emerging risks
Mutual Evaluations	Reviews country compliance	Strengthens financial transparency

 **Explanation of Difficult Terms** 

 Term	 Explanation
AML (Anti-Money Laundering)	Policies to prevent the conversion of illegal funds into legitimate assets.
CFT (Counter Financing of Terrorism)	Measures to block terrorist groups from receiving financial support.
KYC (Know Your Customer)	Verification of customer identity before financial transactions.
Wire Transfer	Electronic money transfer between banks, commonly used in cross-border transactions.
Mutual Evaluation	FATF's process of assessing a country's AML/CFT effectiveness.
High-Risk Jurisdictions (Black List)	Countries with severe AML/CFT deficiencies facing sanctions.
Jurisdictions Under Monitoring (Grey List)	Countries with AML weaknesses but committed to reforms.



Key Takeaways




 FATF sets the global AML/CFT framework through its recommendations.  

 Countries with poor AML policies face blacklisting, financial restrictions & global sanctions.  

 Banks must comply with FATF standards to prevent financial crimes & access international markets.  

 FATF continuously reviews & updates its recommendations based on emerging threats.  




 Strong FATF compliance ensures a transparent & secure global financial system! 

Would you like MCQs, case studies, or JAIIB/CAIIB exam insights on FATF AML regulations?   

FATF-Style Regional Bodies (FSRBs) & AML/CFT Compliance



4.3 FATF-Style Regional Bodies (FSRBs)

 FATF sets international AML/CFT standards, but regional variations exist  

 FSRBs adapt FATF guidelines to region-specific risks & challenges



✔ These bodies conduct AML/CFT evaluations & support FATF's global mission 📊💰


📌 Example: The Asia/Pacific Group on Money Laundering (APG) ensures that AML policies fit regional financial structures.

📌 4.3.1 Major FATF-Style Regional Bodies & Their Roles






🔍 FATF-Style Regional Bodies (FSRBs) Worldwide

🌍 Regional Body	📄 Region	🔍 Key Role	📊 Members
Asia/Pacific Group on Money Laundering (APG)	Asia-Pacific	Implements FATF AML/CFT recommendations	41 members
Caribbean Financial Action Task Force (CFATF)	Caribbean & Central America	Regional AML compliance & mutual evaluations	24 members
MONEYVAL (Council of Europe AML Committee)	Europe	Evaluates AML measures in European nations	30+ members
Eurasian Group (EAG)	Russia, China & Central Asia	AML/CFT legal framework support	9 members
Eastern & Southern Africa AML Group (ESAAMLG)	Africa	Conducts mutual evaluations	19 members

Financial Action Task Force of Latin America (GAFILAT)	Latin America	Formerly GAFISUD, enforces FATF standards	17 members
Governmental Action Group Against Money Laundering in West Africa (GIABA)	West Africa	ECOWAS AML implementation	16 members
Middle East & North Africa FATF (MENAFATF)	MENA Region	Adapts FATF policies for Middle East/North Africa	21 members
Task Force on Money Laundering in Central Africa (GABAC)	Central Africa	AML/CFT training & enforcement	7 members
Group of International Finance Centre Supervisors (GIFCS)	Offshore Financial Centers	Supervises AML measures in financial hubs	Multiple jurisdictions

 **Example: MENAFATF adapts FATF rules to fit Islamic banking frameworks in the Middle East.**

4.3.2 Functions of FATF-Style Regional Bodies

-  **Conduct mutual AML/CFT evaluations in their regions** 
-  **Identify high-risk sectors & provide technical support** 
-  **Assist in the implementation of FATF standards at the local level**



✔ Monitor member states & issue advisories 🌐 📄



📌 Example: The **Caribbean FATF (CFATF)** evaluates financial crime risks unique to offshore tax havens.

🏦 Final Summary Table 📝

🌐 Regional AML Body	📄 Region	🔍 Role in AML/CFT
APG (Asia/Pacific Group)	Asia-Pacific	Implements FATF policies in Asia-Pacific
CFATF (Caribbean FATF)	Caribbean	Oversees AML efforts in Caribbean tax havens
MONEYVAL	Europe	Evaluates AML/CFT measures in Europe
EAG (Eurasian Group)	Russia & Central Asia	Supports AML legal framework implementation
ESAAMLG	Africa	Conducts AML/CFT mutual evaluations
GAFILAT	Latin America	Strengthens AML/CFT efforts in Latin America
GIABA (West Africa)	West Africa	Ensures FATF compliance in ECOWAS countries
MENAFATF	Middle East & North Africa	Adapts FATF rules for Islamic banking
GABAC (Central Africa)	Central Africa	Trains & enforces AML regulations

GIFCS (Financial Centre Supervisors)	Offshore finance hubs	Regulates offshore banking compliance
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 **Explanation of Difficult Terms** 

 Term	 Explanation
FSRB (FATF-Style Regional Body)	A regional body that implements FATF AML/CFT recommendations.
Mutual Evaluation	A review of a country's AML/CFT compliance by its regional body.
Offshore Financial Center (OFC)	A jurisdiction with low-tax regulations, often used for financial secrecy.
ECOWAS (Economic Community of West African States)	A regional bloc in West Africa that coordinates economic policies, including AML.
Islamic Banking	A financial system based on Shariah law, requiring special AML considerations.

 **Key Takeaways**

 **FSRBs adapt FATF's AML/CFT policies to regional financial systems.**  

 **Each region has a dedicated AML task force that conducts mutual evaluations.**  

 **FSRBs help countries implement FATF standards & track financial crime trends.**  

💡 Countries must comply with FSRB guidelines to access global financial markets. 🔍✅

📌 Strong regional AML bodies ensure better financial security worldwide! 🚀

Would you like MCQs, case studies, or JAIIB/CAIIB insights on FSRBs? 📖🏛️😊

🏛️ The Wolfsberg Group & FATF Recommendations 🌐🔍

📌 4.4 The Wolfsberg Group

✅ A global association of 13 major banks formed in 2000 🏛️🏠

✅ Develops anti-money laundering (AML) & counter-terrorist financing (CFT) frameworks 📜🔍

✅ Focuses on KYC, financial crime risk management & private banking AML policies 💰🚓


📌 Example: Wolfsberg Group issued guidelines for private banking to prevent illicit financial activities.

📌 4.4.1 Correspondent Banking Guidelines

✅ Guidelines for correspondent banking due diligence 🌐🏠




✅ Developed a "Due Diligence Registry" for financial institutions 📜🔍

✅ Created an AML Questionnaire to help financial institutions assess counterparties' AML policies 💰📊




 **Impact:** Ensures banks **assess & mitigate risks in international banking relationships.**

 **Brief Synopsis of FATF Recommendations**

A. AML/CFT Policies & Coordination

 Policy	 Key Requirement	 Impact
Risk-Based Approach (RBA)	Countries & institutions must assess money laundering risks & apply proportionate measures	Strengthens financial security
National AML/CFT Policies	Governments must coordinate AML/CFT strategies with data protection laws	Ensures regulatory alignment

B. Money Laundering & Confiscation




 Policy	 Key Requirement	 Impact
Money Laundering Offense	Criminalize money laundering based on Vienna & Palermo Conventions	Expands legal coverage
Confiscation Measures	Enable freezing & confiscation of illegal funds/assets	Prevents reinvestment in crime

C. Terrorist Financing & Proliferation




 Policy	 Key Requirement	 Impact
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Terrorist Financing Laws	Criminalize terrorist financing, even without proof of actual use	Enhances counter-terrorism efforts
Targeted Financial Sanctions	Enforce UN sanctions against terrorists & weapons proliferation	Blocks illegal funding channels
Non-Profit Organizations (NPOs)	Prevent misuse of charities for terrorist financing	Strengthens oversight

D. Preventive Measures




 Policy	 Key Requirement	 Impact
Financial Institution Secrecy Laws	Ensure AML laws are not blocked by secrecy laws	Increases transparency
Customer Due Diligence (CDD)	Prohibit anonymous/fake accounts & require identity verification	Reduces fraud risks
Record-Keeping	Maintain transaction records for at least five years	Enables investigations

Final Summary Table




 Entity	 Key Role	 Impact
Wolfsberg Group	Sets global banking AML/CFT best practices	Enhances financial crime compliance
Correspondent Banking Guidelines	Establishes due diligence in global banking	Reduces money laundering risks

FATF Recommendations	International AML/CFT standards	Ensures financial security
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 **Additional Measures for Specific Customers & Activities**




 Measure	 Requirement	 Impact
Politically Exposed Persons (PEPs)	Establish source of wealth & funds, obtain senior management approval	Prevents corruption & illicit financial activities
Correspondent Banking	Conduct CDD on foreign banks, prohibit relationships with shell banks	Reduces financial crime risks
Money Transfer Services (MVTs)	Licensing & registration required, monitoring of agent networks	Ensures compliance & oversight
New Technologies	Assess ML/TF risks in digital banking & virtual assets	Enhances security in FinTech transactions
Wire Transfers	Maintain accurate sender & beneficiary info, comply with UN sanctions	Prevents misuse of wire transfers

 **Reliance, Controls & Financial Groups**




 Measure	 Requirement	 Impact
Third-Party Reliance	Financial institutions may rely on third parties but retain ultimate responsibility	Ensures due diligence & accountability

Internal Controls	AML/CFT programs required for financial institutions & subsidiaries	Strengthens risk management
High-Risk Countries	Enhanced due diligence for transactions linked to high-risk countries	Prevents illicit financial flows

Reporting & Transparency




 Measure	 Requirement	 Impact
Suspicious Transaction Reporting (STRs)	Mandatory reporting of suspected criminal activities to FIUs	Helps detect financial crimes
Tipping-Off & Confidentiality	Protect employees from liability, prohibit disclosure of STRs	Ensures integrity of investigations
Transparency of Legal Entities	Ensure access to beneficial ownership details	Prevents misuse of corporate structures for ML/TF

Regulation & Supervision



 Measure	 Requirement	 Impact
Supervision of Financial Institutions	Banks & MVTS providers must be licensed & monitored	Ensures compliance with AML/CFT laws
Regulation of DNFBPs	Casinos, real estate, precious metal dealers, lawyers must follow AML measures	Expands compliance to high-risk sectors

Law Enforcement Powers	Authorities must access financial records, conduct investigations	Enables prosecution of financial crimes
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International Cooperation

 Measure	 Requirement	 Impact
Mutual Legal Assistance (MLA)	Countries must assist in ML/TF investigations & prosecutions	Strengthens cross-border enforcement
Asset Freezing & Confiscation	Enable seizure of criminal assets	Deters financial crime networks
Extradition	Facilitate extradition of financial criminals	Enhances global accountability

Final Summary Table

 Category	 Key Measures	 Impact
AML/CFT for Financial Institutions	KYC, CDD, STR reporting, wire transfer monitoring	Prevents illicit financial transactions
High-Risk Entities & Activities	PEPs, Correspondent Banking, Money Transfer Services	Reduces corruption & fraud risks
International Cooperation	Legal assistance, asset freezing, extradition	Strengthens global AML/CFT efforts

Explanation of Difficult Terms

 Term	 Explanation
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Politically Exposed Person (PEP)	Individuals with prominent public roles (e.g., government officials)
Beneficial Ownership	The true owner of a company or asset, even if held under another name
Suspicious Transaction Report (STR)	A report filed by financial institutions when they suspect illegal activities
Mutual Legal Assistance (MLA)	Cooperation between countries for investigating & prosecuting financial crimes