



## REGULATORY QUICK GUIDE

### WHAT IS A REGULATORY QUICK GUIDE?

A quick guide gives regulated businesses a brief snapshot of an AML/CTF compliance topic, to help you make sure you are meeting your obligations and protecting your business and the community from serious and organised crime.

# Correspondent banking relationships

AUSTRAC's regulatory activity has identified that a lack of due diligence on correspondent banks exposed businesses to non-compliance.

Correspondent banking relationships present higher ML/TF risks due to:

- their association with cross-border movements of funds
- jurisdiction risk, including the risks of operating in certain foreign countries
- risks associated with the transparency of the identity and source of funds of customers of the correspondent banks.

For this reason, it is critical to conduct appropriate due diligence of your correspondent banking relationships, as you will rely upon respondent banks to identify and manage certain risks.

The design and implementation of due diligence and assessment of risks of a correspondent banking relationship should include strong first line testing, second line oversight and assurance, and third line audit coverage to identify any flaws in the design. This includes measures to assess ongoing business relationships and monitor any material changes to those relationships, as well as ensuring there is appropriate transaction monitoring applied to all accounts. This information allows you to appropriately manage ML/TF risks and ensure these risks are within your risk appetite, and to identify and resolve issues in due diligence processes.

You must ensure that your assessment of the correspondent banking relationship enables you to identify, mitigate and manage the money laundering and terrorism financing risks associated with the relationship. Nested relationships involve a financial institution customer of the respondent bank conducting transactions or accessing other financial services through the correspondent banking relationship without being your direct customer. These pose higher ML/TF risks because you do not have visibility over the underlying financial institutions transacting through the arrangement. Other higher risk circumstances may involve relationships with other banks operating in jurisdictions which have trade or financial sanctions imposed by one or more other jurisdictions.

You must ensure that you appropriately assess the jurisdictional risks of your correspondent banking relationships by ensuring you assess the location of the respondent bank as well as its parent entity.

### Looking for more guidance?



For tips on understanding your AML/CTF obligations take a look at our regulatory quick guides at [austrac.gov.au/reg-quickguides](https://austrac.gov.au/reg-quickguides)

For more information about correspondent banking relationships, visit [austrac.gov.au/correspondent-banking-guidancenote](https://austrac.gov.au/correspondent-banking-guidancenote)