Cross-Border Payments

Survey Results on Implementation of the FATF Standards

October 2021

The Financial Action Task Force (FATF) is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. The FATF Recommendations are recognised as the global anti-money laundering (AML) and counter-terrorist financing (CFT) standard.

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Acronyms and Glossary

AML/CFT	Anti-Money Laundering/Countering the Financing of Terrorism
BB	Building Block
CDD	Customer Due Diligence
Digital Wallet Provider	Digital wallet or e-wallet providers give the customer an opportunity to have their credit and debit cards in a digital format on their mobile phone or wearable device. Wallets can also link to bank accounts
DNFBP	Designated Non-financial Business and Profession
EDD	Enhanced Due Diligence
Electronic Money Issuer (EMI)	EMI is an institution that has been granted authorization to issue electronic money (e-money). E-money is a monetary value, represented by a claim on the issuer, which is: i) stored on an electronic device (e.g. a card or computer); ii) issued upon receipt of funds in an amount not less in value than the monetary value received; and iii) accepted as a means of payment by undertakings other than the issuer
FATF	Financial Action Task Force
FinTech	FinTech in broader sense means technologically enabled financial innovation that could result in new business models, applications, processes or products with an associated material effect on financial markets and institutions and the provision of financial services
HRTC	High Risk Third Country
INR.	Interpretive Note to Recommendation
KYC	Know Your Customer/Know Your Client
ML/TF	Money Laundering/Terrorist Financing
MSB	Money Service Business
MVTS	Money or Value Transfer Service
NBFI	Non-banking financial institutions
Payment Service Provider (PSP)	PSPs can be traditional PSPs (banks, credit or depository institutions) or non-bank PSPs such as money or value transfer services (MVTS). In some jurisdictions, electronic money issuers are categorized as PSPs
SDD	Simplified Due Diligence
STR	Suspicious Transaction Report
TM	Transaction Monitoring
TFS	Targeted Financial Sanctions
UNSCR	United Nations Security Council Resolution

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Executive Summary

1. Enhancing cross-border payments is a key priority of G20 in order to achieve faster, cheaper, more transparent, and more inclusive cross-border payment services, while maintaining their safety and security; thereby facilitating economic growth, international trade, global development and financial inclusion. At its October 2020 Finance Ministers and Central Bank Governors meeting, the G20 endorsed the Roadmap for Enhancing Cross-border Payments, which comprises 19 Building Blocks (BBs). FATF is leading the work on BB5. This Building Block focuses on identifying areas where divergent AML/CFT rules or their implementation cause friction for cross-border payments, and considering how these could be addressed. It may, however, be noted that that some of those differences may be necessary or justified based on different underlying risks or different legal systems.

2. The FATF, in consultation with BCBS conducted an industry survey between December 2020 and March 2021. The objective of the survey was to identify key areas of divergence in implementation of AML/CFT requirements, which create frictions for cross-border payments and their potential solutions. The survey and the subsequent technical dialogue with the industry participants has revealed that divergent implementation of AML/CFT requirements seems to contribute to challenges for cross-border payments in a number of ways. While some of these issues may not exclusively relate to cross-border aspects, inefficiencies caused by inconsistent implementation of AML/CFT rules and regulations and other related and over-lapping requirements seem to be areas causing friction for cross-border payments.

3. Raising costs seems to be the main consequence of divergent implementation, followed by reduced speed, access and inconsistent levels of transparency. Based on the survey response, areas where inconsistent national approaches seem to cause the biggest obstacles for the private sector are: i) identifying and verifying customers and beneficial owners; ii) sanctions screening; iii) sending and receiving customer/transaction information; and iv) establishing and maintaining correspondent banking relationships. There also appears to be an overlap in key challenges. For example, differing requirements on identification and verification of customers and beneficial owners create challenges in other areas (sanctions screening, correspondent banking, sharing of customer information). Divergent interpretation and implementation of R.16 requirements across jurisdictions seem to cause challenges for sharing of necessary information and sanctions screening processes.

4. Key drivers of these frictions identified by the private sector include conflicting laws and regulations (where national laws and regulations in different jurisdictions contradict each other or have incompatible requirements); rules which exist in all jurisdictions, but are interpreted or applied in different ways or to different extents and inconsistent supervisory approaches across jurisdictions, notwithstanding different risk and context of jurisdictions. Challenges caused by varied interpretation and implementation

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of data protection and privacy rules and data localisation requirements also have a cross-cutting impact across the whole range of areas of divergence.

5. Survey responses also highlighted frictions caused by AML/CFT measures implemented at national levels, which are not stemming from the FATF standards. These include some jurisdictions establishing rules based filing expectations, including requirements to report all cross-border transactions for exchange control considerations, limited use of innovative services and new technologies and inconsistent national application of or over compliance with requirements. Some of these issues fall outside of the FATF remit and may create unwarranted friction.

6. The FATF will take a holistic view on the challenges identified, including through ongoing dialogue and engagement with the private sector in order to identify potential solutions. This should include consideration of the related previous and ongoing work of the FATF, and the work being pursued by other international organisations, in order to ensure synergy and avoid duplication. Any potential solution envisaged should be practical and realistic, and should result in meaningful improvements in efficiency and effectiveness of national measures, processes, procedures and practices, without compromising AML/CFT safeguards.

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1. Background

7. Enhancing cross-border payments is a key priority of G20. The FSB set out a three-stage plan including an initial assessment (completed in April 2020[1]), identification of building blocks (completed in June 2020[2]); and preparation of a roadmap (completed in October 2020[3]) in order to enhance global cross-border payment arrangements. The roadmap was endorsed by G20 in October 2020.

8. The roadmap has 19 Building blocks (BB) with BB5 focused on AML/CFT. The delivery of BB5 is being driven by the FATF in collaboration with the Basel Committee on Banking Supervision (BCBS). It focuses on identifying areas where AML/CFT rules or their implementation cause friction for cross-border payments, and considering how these could be addressed. It includes the following actions:

Action 1 **Further harmonisation of AML/CFT and KYC requirements among countries**	
FATF and BCBS to consider where further harmonisation among jurisdictions could remove barriers to cross-border payments, and develop proposals for such further harmonised requirements (without compromising AML/CFT safeguards)	October 2020 – October 2021
Action 2 **Review evaluation program for national CDD measures and supervision**	
FATF to conduct a Strategic Review of FATF Mutual Evaluation programme, which will provide an updated basis for evaluations of national CDD measures and supervision	October 2020 – October 2021
Action 3 **Enhanced cooperation in AML/CFT supervisory matters**	
FATF to publish Guidance on international cooperation among AML/CFT supervisors	October 2021 – June 2022
Action 4 **Development and implementation of technologically innovative solutions for AML/CFT**	
FATF and other relevant bodies to consider development of Guidance or changes in Standards in order to remove obstacles and promote a more standardised use of new technologies for applying AML/CFT controls	October 2021 – June 2022

[1] www.fsb.org/2020/04/enhancing-cross-border-payments-stage-1-report-to-the-g20/
[2] www.fsb.org/2020/07/building-blocks-for-a-roadmap-to-enhance-cross-border-payments-letter-to-the-g20/
[3] www.fsb.org/2020/10/enhancing-cross-border-payments-stage-3-roadmap/

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9. The FATF, in consultation with BCBS, conducted an industry survey between December 2020 and March 2021. The objective was to gather feedback from payment services providers, including banks, MVTS and other stakeholders in order to identify key areas of divergence in implementation of AML/CFT requirements, which create frictions for cross-border payments and their potential solutions. It is acknowledged that some of those differences may be necessary or justified based on different underlying risks or different legal systems.

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2. Results of the survey and industry feedback

10. The survey remained open until 15 March 2021, and 173 complete responses were received. This report provides an analysis of the quantitative and qualitative input gathered in the survey and subsequent discussions with the industry. This report is a stocktake of key challenges caused by divergent implementation of AML/CFT standards, based on the feedback provided by the private sector and does not necessarily reflect the FATF's opinion.

11. One hundred ten of the respondents are banks (65%), sixteen are payment service providers and the rest are spread across various categories, including associations, FinTech firms, electronic money issuers and others. The dominance of banks in the survey is not surprising, considering their role in the global cross-border payments market. However, extensive submission was provided by other sectors as well, which has been taken into account in the drafting of this report. Most of the respondents are operating in multiple geographical regions with value of cross-border transactions being processed by them ranging from less than 50 million USD/Euro to more than 100 billion USD/Euro. Almost 71% of the respondents operate in 1-10 jurisdictions and 6% in more than 100 jurisdictions. Responses received were from institutions operating in jurisdictions classified under different income groups, ranging from low to high.

12. A statistical and graphical representation of the profile of respondents who contributed to the survey is as follows.

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2.1. Respondents' profile4

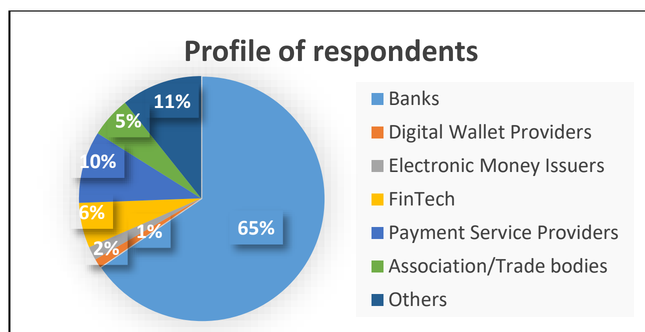

Chart 2: Geographical areas of operation

Region	No. of institutions*	%
Africa	43	11.6
Latin America and the Caribbean	44	11.9
Northern America	54	14.6
Asia	111	30.0
Europe	87	23.5
Oceania	31	8.4
* Several institutions operate in multiple regions		

Chart 3: Number of jurisdictions in which operating

Range	No. of institutions	%
1-10	123	71.1
11-49	29	16.8
50-99	11	6.3
100 and above	10	5.8

Chart 4: Approx. value of cross-border transactions processed

Range	No. of institutions	%
Less than 50 million	57	33.0
50-99 million	14	8.1
100-499 million	16	9.2
500-999 million	13	7.5
1-100 billion	51	29.5
More than 100 billion	22	12.7

Chart 5: Income classification of jurisdictions operating in

Income level	No. of institutions*	%
High income	71	24.8
Upper-middle income	68	23.8
Lower-middle income	98	34.3
Low income	49	17.1
* Several institutions operate in multiple jurisdictions		

[4] Respondents providing these services are categorised following a functional approach, based on their contribution to the survey, rather than as per strict legal definition. Institutions may provide multiple services and may be categorised differently in different jurisdictions, in accordance with national legal or regulatory framework. Please refer to *Acronyms and Glossary* page of the report for further description of key terms.

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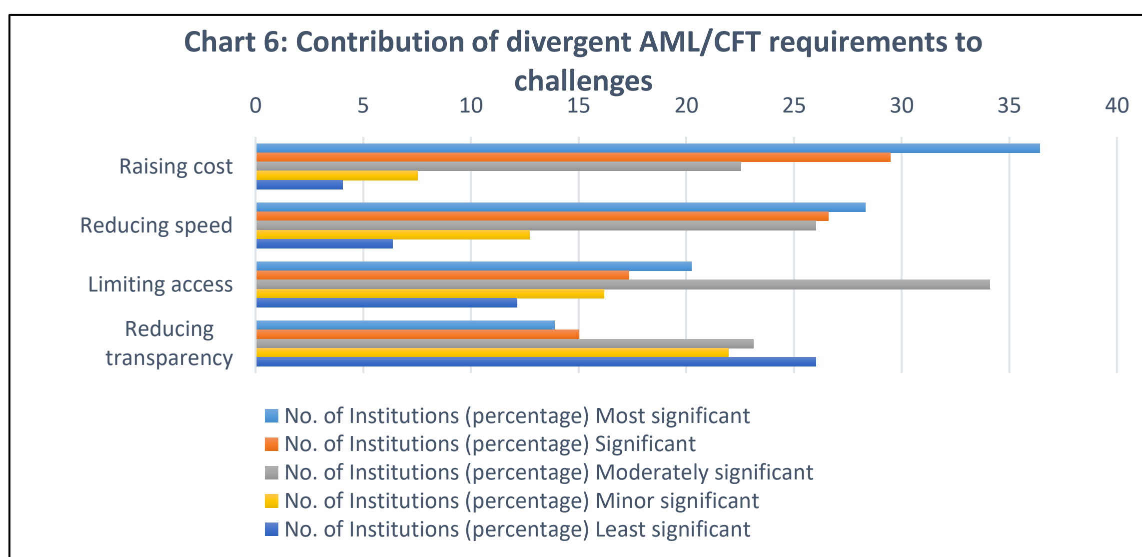
2.2. Contribution of divergent AML/CFT rules to challenges

13. As an overarching mandatory question, the survey solicited responses on **how significantly** divergent AML/CFT rules among jurisdictions contribute to challenges for cross-border payments, noting that some of those differences may be necessary or justified based on different underlying risks or different legal systems. According to the respondents, these challenges are: increased costs, reducing the speed or transparency and limiting access of cross-border payments. A scale of 1-5 was set out to get structured responses from participants, with 1 implying the least significant and 5, the most significant challenge. Respondents were also requested to substantiate their rating by providing specific examples and comments. A quantitative and qualitative analysis of the responses received is tabulated below.

Table 1. Contribution of divergent AML/CFT rules to challenges

Contribution of Divergent AML/CFT Rules to Challenges	No. of Institutions				
	Most significant	Significant	Moderately Significant	Minor Significant	Least Significant
Raising cost	63	51	39	13	7
Reducing speed	49	46	45	22	11
Limiting access	35	30	59	28	21
Reducing transparency	24	26	40	38	45



14. Raising costs seems to be the main consequence of divergent rules: almost 66% of respondents have identified raising cost as the 'most significant' or 'significant' challenge resulting from divergent AML/CFT rules. Fifty-five percent of the respondents have identified reducing speed as the 'most significant' or 'significant' challenge from divergent AML/CFT rules. Access (38%) and transparency (29%) were identified as the third and the fourth challenge in the scale of significance.

15. In the detailed narrative provided by respondents, there seems to be a strong correlation between the challenge of increased cost and reduced

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speed. Hence, the section below seeks to analyse the challenges in three parts: a) cost and speed; b) transparency; and c) access.

2.2.1. Cost and speed

16. Many respondents indicated that generally, the complexity of divergent AML/CFT rules leads to increased costs in system development, monitoring and education. Several respondents highlighted the technological costs associated with the need to incorporate high-end technology and ML/TF surveillance solution that can build in all requirements from different jurisdictions. Changing regulations frequently also increases costs because new requirements mean financial institutions might have to invest in new or reshaped processes, technology or training.

17. Many respondents cited inconsistent customer onboarding and due diligence obligations as the biggest factor contributing to increased costs, and reduced speed (this issue is further analysed in the thematic section C below). This leads to delays in customers being able to open accounts and transfer funds, and can lead to reduced access to financial services for those customers, especially if profit calculations do not justify the related compliance costs. For example, in some jurisdictions, it is common to register a customer with his or her last name and the initials of their first name. Other jurisdictions, however, require the full first name. This variance in requirements causes queries, follow-ups and delay in transaction processing as sometimes the payment is returned due to incomplete customer details, leading to additional costs.

18. Many respondents have indicated that the complexity of divergent AML/CFT rules also adds to costs and delays by reducing the scope both for process consolidation within financial groups and for reliance between different financial entities. Varied approaches to, and wide interpretation of, certain FATF Standards by different jurisdictions (e.g. of R.16 requirements on address, including definition of 'address', national identity number, and place of birth) often result in obtaining conflicting information that needs to be reconciled through intensive manual processes and expert interpretation, causing delays and increasing costs.

19. Responses received suggest that jurisdictions have adopted different interpretations and inconsistent application of the R.16 "travel rule". Examples of differences include: what information is to be provided in the payment instructions (different standards for the beneficiary field: address only or name, address, account/reference number), inconsistent application to all cross-border payment systems, particularly new and evolving systems, inconsistent application to domestic payment systems, and different monetary thresholds at which the "travel rule" should apply.

20. Requirements to conduct CDD on all occasional transactions in some jurisdictions are said to cause transactions to be queued, which delays the execution of the transactions. Implementation of AML/CFT regulatory requirements at the settlement level often slows the process down, where additional documentation (e.g. tax ID) is required.

21. Cross-border payments are viewed as higher risk transactions due to their potential use in the ML/TF, as well as the possibility that they will transit a sanctioned country. Since low-value payments can also be used to

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finance terrorism or to fund AML/CFT predicate offences, and as sanctions legislation applies regardless of amount, all cross-border payments need to be sanctions-screened and any alerts investigated, which drives up costs and reduces efficiency. Survey responses noted that as correspondent banks are required to perform due diligence on their respondent banks, this leads to perceptions that they become de facto supervisors, rather than being allowed to place reliance on local supervision of their respondent banks. They also noted that payments are scrutinized repeatedly at each step in the payment chain in part because of the inability by each party to apply reliance on each other.

22. Many respondents have highlighted that cost and speed of cross-border payments processing are adversely affected due to manual processes and the increased use of Requests for Information (RFI) (i.e. requests for CDD information on the sender and/or receiver to the sending or receiving institution). RFI processing is the most time consuming and therefore, an expensive process for institutions providing cross-border payment services. A transaction processed with the appropriate data on the sender and/or receiver takes between 1-5 minutes to review when it generates a hit or an alert, against 2-5 days when it requires an RFI.

23. Denial of access to payment infrastructure was also cited as a potential cause of increased costs. Certain national regulations (due to prudential, AML/CFT or security reasons) do not allow non-bank financial institutions access to local clearing systems to settle payments, even when the institution is a full SWIFT member. This could add to the costs of customers of such institutions. Denial of access to bank accounts in the country of operations and country of pay-outs (e.g. to MVTS providers) was also highlighted as one of the most significant issues. This has led to unregulated channels being used instead, resulting in higher ML/TF risks and lower transparency.

24. Many respondents have highlighted sanctions screening and transaction monitoring as one of the most significant cost elements, where there are widely differing requirements, expectations and complexity between different jurisdictions. The filtering process of transactions showing a hit against various sanctions lists is labour-intensive, as it also needs to detect information in free format fields, that causes false positives to be manually checked by the staff, resulting in delays and increased costs.

2.2.2. Access

25. Some respondents noted that where local obligations on customer identification are in excess of what national infrastructure could support (e.g. on biometrics, tax id), this may lead to exclusion of a proportion of society from formal remittance services. Requirements to obtain all KYC documentations, in particular, for occasional transaction below monetary threshold, without basing these requirements on consideration of ML/TF risks not only adds to cost but often reduces access for those unable to produce the necessary documentation.

26. Respondents noted that whereas the FATF Recommendations create a common baseline to which financial institutions should comply, some jurisdictions habitually "gold-plate" additional requirements. In the case of cross-border payments, this can be disproportionately onerous and resource

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intensive. One such example would be a requirement to conduct AML/CFT monitoring of all transactions of clients based in or undertaken from and to a high risk third country (HRTC) prior to execution, rather than post-facto. This creates pressures on the available monitoring resources, slows down payments, and runs the risk of monitoring staff taking an overly cautious position on releasing the payment, leading to access issues.

27. According to survey respondents, additionally, there is inconsistency in the regulatory requirements that pertain to various members of the payments ecosystem, which creates an uneven competitive landscape and does not instil equal accountability. They noted that this, coupled with the application of less stringent AML/CFT regulation in certain jurisdictions, renders them particularly high risk. This might place them outside of risk appetite for certain activities such as cross-border transactions.

2.2.3. Transparency

28. Many respondents noted that AML/CFT regulations increase transparency because they require more information to be contained in a cross-border payment message. However, according to them, this information does not often get carried-over into local clearing systems in some destination jurisdictions. Inability to view the full path of a payment and the underlying risks take away from correspondent banking the key element of trust. If financial institutions do not trust their controls and not trust one another, this inhibits the transparency and smooth process.

29. Conflict between AML/CFT laws and data protection regulations might also affect the transparency of payments as KYC information cannot be shared across jurisdictions. Lack of such sharing might lead to delays in processing and screening. Lack of transparency in the underlying payers/payees when processing aggregated payments from payment service providers, MVTS or other payments related non-banking financial institutions also adversely affects the transparency of transactions.

2.3. Areas where inconsistent national approaches causes the biggest obstacles

30. The survey set out certain areas where inconsistent national approach could cause the biggest obstacles. Respondents were asked to rank their top three areas in order of priority, with an option to give feedback on other areas not listed in the survey. Potential areas set out in the survey were: i) Identifying and verifying customers and their beneficial owners; ii) Targeted financial sanctions screening; iii) Transaction monitoring and filing STRs; iv) Onboarding and maintaining agents; v) Establishing and maintaining correspondent banking relationships; vi) Sending and receiving customer/transaction information; and vii) others.

31. An analysis of the respondents' response is as follows. In order to facilitate cross-comparison among different areas as well as relative ratings assigned by respondents to the survey, the table below provides a composite weighted ranking of all areas. This is derived by assigning the weight of 1, 0.5 and 0.33 to Rank 1, Rank 2 and Rank 3 respectively.

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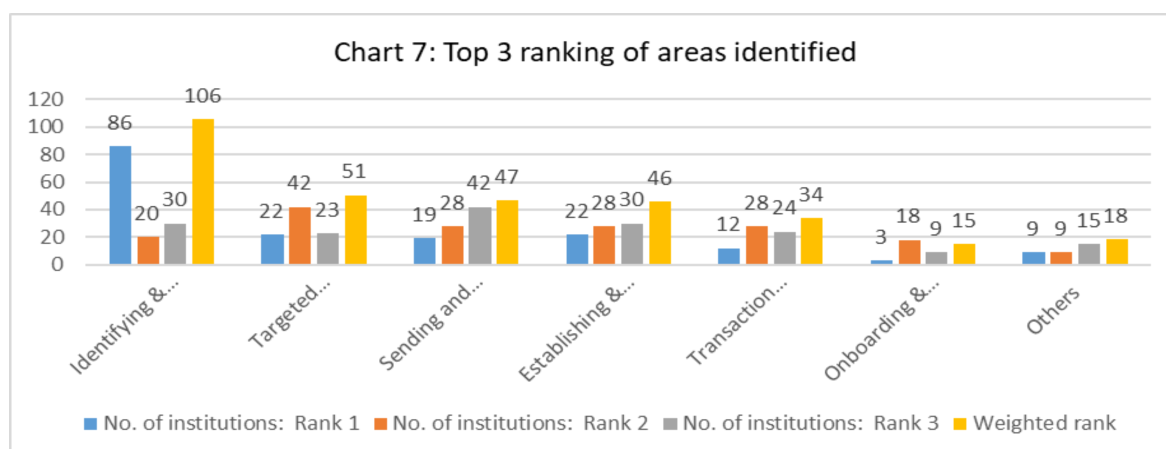
Table 2.Areas highlighted as causing biggest obstacle

Area	No. of institutions			Weighted rank of areas (with assigned weight 1 to Rank 1, 0.5 to Rank 2, and 0.33 to Rank 3)
	Rank 1	**Rank 2**	**Rank 3**	**Composite weight (Rank1*1+ Rank2*0.5+ Rank3*0.33)**
Identifying & verifying customers & beneficial owners	86	20	30	**106**
Targeted Financial Sanctions screening	22	42	23	**51**
Sending and receiving customer/transaction information	19	28	42	**47**
Establishing & maintaining correspondent banking relationships	22	28	30	**46**
Transaction monitoring & filing STRs	12	28	24	**34**
Onboarding & maintaining agents	3	18	9	**15**
Others	9	9	15	**18**



32. Identifying and verifying customers and beneficial ownership information has been identified as the biggest obstacle with the highest weighted rank of 106 among all the potential areas. This is followed by targeted financial sanctions (composite weighted rank of 51), receiving and sending customer/transaction information (composite weighted rank of 47) and establishing and maintaining correspondent banking relationships (composite weighted rank of 46). This analysis is consistent with detailed narrative provided by the respondents as set out in paras 13-29 above. A further analysis in each of these areas is set out in sections below.

33. The shortlisted areas identified by respondents contribute to all four challenges of cost, speed, access and transparency in varying degree. An analysis of responses received on this aspect is tabulated below.

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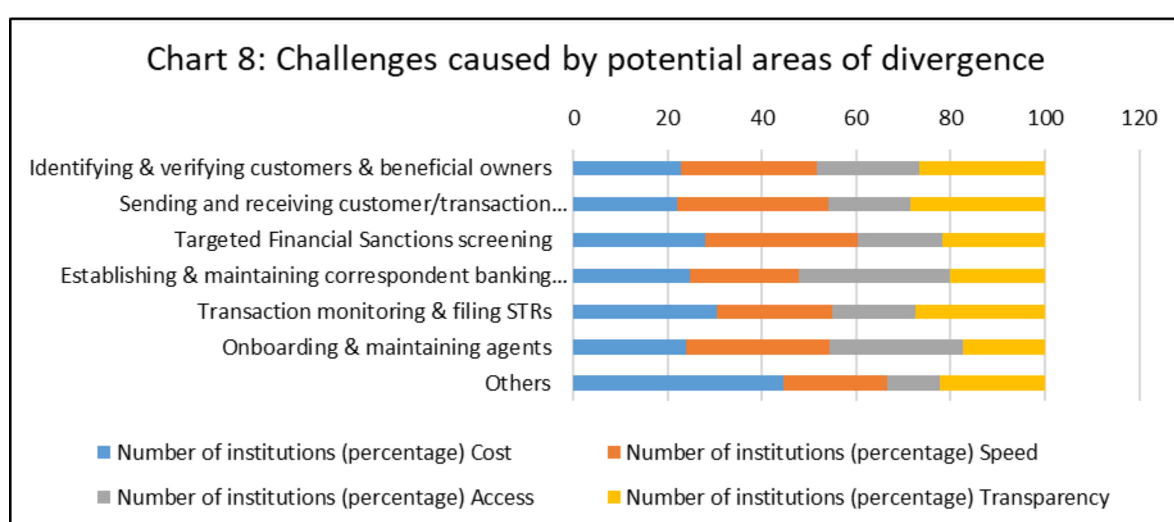
Table 3. Challenges caused by potential areas of divergence

Potential areas of divergence	Contributing to (based on count of number of institutions)				Total count
	Cost	Speed	Access	Transparency	
Identifying & verifying customers & beneficial owners	67	**84**	64	78	293
Sending and receiving customer/transaction information	39	**57**	31	51	178
Targeted Financial Sanctions screening	47	**55**	30	37	169
Establishing & maintaining correspondent banking relationships	40	38	**52**	33	163
Transaction monitoring & filing STRs	**31**	25	18	28	102
Onboarding & maintaining agents	11	**14**	13	8	46
Others	**4**	2	1	2	9



34. Data contained in table 3 and chart 8 are consistent with the general trend of responses received as reflected in table 2. The top four areas: identifying and verifying customers and beneficial owners; sending and receiving customer/transaction information; targeted financial sanctions screening; and establishing and maintaining correspondent banking relationships were identified as contributing to all the four challenges of cost, speed, access and transparency with varying degrees of impact.

2.4. Drivers of Challenges

35. In order to solicit structured responses, survey participants were invited to indicate key drivers, which are causing challenges of increased costs, reduced speed and limitation in access and transparency. The following five options were set out in the survey, with a request to substantiate the response with narrative:

a) Conflicts of law (where national laws and regulations in different jurisdictions contradict each other or have incompatible requirements);

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b) Rules which exist in some jurisdictions but not others;

c) Rules which exist in all jurisdictions, but are interpreted or applied in different ways or to different extents;

d) Inconsistent supervisory approaches across jurisdictions; and

e) Others (to highlight drivers not listed above).

36. Table 4 below highlights the statistical analysis of responses provided by the survey respondents.

Table 4. Drivers of challenges caused in potential areas of divergence

Potential areas of divergence	**Drivers of challenges (count of number of institutions)**				
	Conflicts of law (where national laws and regulations in different jurisdictions contradict each other or have incompatible requirements)	**Rules which exist in some jurisdictions but not others**	**Rules which exist in all jurisdictions, but are interpreted or applied in different ways or to different extents**	**Inconsistent supervisory approaches across jurisdictions**	**Others**
Identifying & verifying customers & beneficial owners	63	**71**	63	49	15
Sending and receiving customer/transaction information	37	39	**41**	35	16
Targeted Financial Sanctions screening	37	**46**	30	31	12
Establishing & maintaining correspondent banking relationships	26	33	**39**	31	10
Transaction monitoring & filing STRs	**26**	23	23	21	6
Onboarding & maintaining agents	**13**	9	9	8	1

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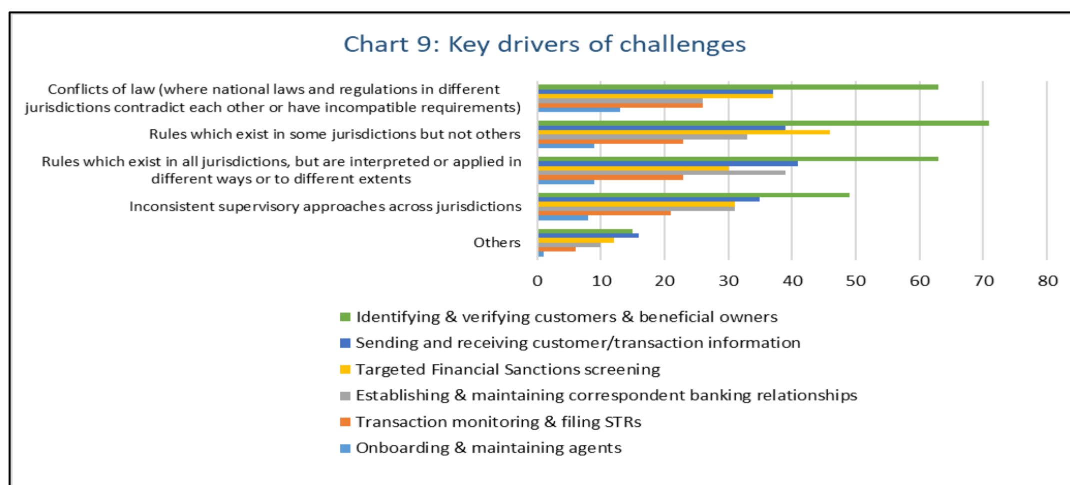

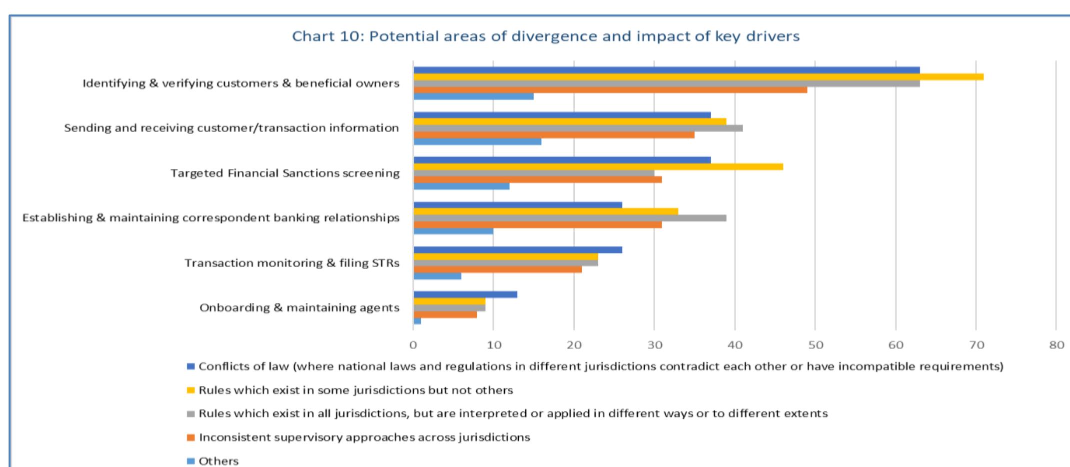

37. Table 4 and chart 9 and 10 indicate that *conflicts of law*; *rules which exist in some jurisdictions but not others*; and *different interpretation or application of rules* were highlighted as key drivers in the biggest area of divergence, i.e. identifying and verifying customers and beneficial owners'. The other key potential areas of divergence (sending and receiving customer/transaction information; targeted financial sanctions screening; and establishing and maintaining correspondent banking relationships) also exhibited similar pattern. The role of inconsistent supervisory approaches, notwithstanding different risk and context of jurisdictions, was also indicated as a key factor across different areas of divergence.

38. An analysis of the detailed responses received from the survey participants highlighted close interaction between drivers of challenges across the potential areas of divergence. For example, differing requirements on identification and verification of customers and beneficial owners create challenges in other areas (e.g. meeting targeted financial sanctions obligations, establishing and maintaining correspondent banking, sharing of customer information etc.). Challenges caused by varied interpretation and implementation of data protection and privacy rules were reported across the range of potential areas of divergence.

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39. This section, therefore, analyses each of these drivers holistically in key areas of divergence, with a view to focus on main points raised by participants. This analysis is set out below.

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3. Key areas of divergence

3.1. Identifying and verifying customers and beneficial owners

40. This was highlighted as a biggest area of divergence. Factors highlighted include differing documentation requirements, differences in risk-based approach, divergent implementation of data protection and privacy rules and perceived conflict between AML/data protection requirements, lack of access to accurate beneficial ownership information and onerous CDD obligations on directors, persons acting on behalf of corporate clients.

41. Many respondents noted that the primary way in which AML/CFT practices impact on cross-border payments is through divergent national requirements for customer due diligence. According to them, the interpretation of risk-based approach and the application of simplified due diligence (SDD) differs between jurisdictions, with some jurisdictions permitting SDD in a very limited and prescriptive number of situations.

42. For example, some jurisdictions restrict the type of customer or product that can be considered lower risk, and whether SDD can be applied, without consideration of ML/TF risks posed in individual situations. This approach could create an overly cautious approach for lower risk situations and reduce the effectiveness of a firm's ML/TF risk management function. Participants highlighted that a prescriptive approach to CDD or specifying a mandatory list of documents that should be obtained in all cases is an ineffective way to reduce ML/TF risk. Rather, the CDD requirements, including documentation required should be tailored to the type of client and exercised using a risk-based approach instead of a prescriptive approach. In this scenario, the costs remain disproportionately high to the level of risk posed by, for example, low value transactions (and customers) in certain regions. It can also exclude access for those without the ability to provide certain documents or information, usually the ones at most need of financial inclusion.

43. Many respondents noted that rules-based over-compliance with FATF Recommendations and institution of rules, which are not based on an assessment of real risk could lead to unnecessary CDD requirements, adding to costs and delays and takes the regulated sector's focus away from genuine financial crime prevention. Examples highlighted include differences about the concept of beneficial owner and controlling ownership, lack of SDD measures in appropriate cases such as in case of the public companies listed on a stock exchange and subject to disclosure requirements, which impose requirements to ensure adequate transparency of beneficial ownership and creating obligations to verify the identity of the beneficial owner in all cases (rather than take reasonable measures as provided under R.10). Other areas highlighted by respondents include creating mandatory requirements to verify the identity of all directors and to identify and verify the identity of individuals doing transactions on behalf of corporate customers as well (rather than just retail customers on power of attorney basis).

44. In some jurisdictions, there is a significant proportion of citizens with no formal identity documentation. Responses suggest that mandatory identity documentation standards for financial services (including cross-border payments) therefore excludes this proportion of the population from

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receiving much-needed services. Lack of digital alternatives were also cited as factors leading to increased costs associated with on-boarding customers.

45. According to the respondents, in several jurisdictions, privacy and AML laws continue to be enacted without proper alignment with each other, which often creates conflict-of-law situations. Some jurisdictions require through their AML rules that information of the counterpart of the transaction is collected and shared, for monitoring and screening purposes, however, privacy rules in the same jurisdictions do not allow sharing of the same items of consumer information. Fragmented beneficial ownership information collected by various agencies also creates challenges. Lack of centralised registries for beneficial owners increase costs and causes delays.

46. Different CDD requirements regarding necessary documents are an obstacle that prevents financial institutions establishing uniform IT systems and conflict with uniform group-wide requirements. For example, inconsistencies exist in country requirements on data points that should be collected such as place of birth (which is not available in some ID documents), date of birth, gender information, etc.

47. Inconsistencies highlighted in the survey response and the subsequent technical dialogue with the industry referred to different data points that should be collected for individuals empowered to control and manage bank accounts of a corporate entity. Respondents noted that within the European context, for example, a single Regional Corporate Treasurer or Regional Financial Director may have access to multiple bank accounts in various jurisdictions. However, the information that must be collected on this individual to validate identity for the purpose of CDD differs in each jurisdiction and does not appear to be based on consideration of ML/TF risks.[5] For example, country of birth is required in some countries (only for resident entities), but not others. City of birth is required in some countries, but not the country of birth information, which is a mandatory requirement in others. Similar inconsistency exists for gender information as well as information on senior management and owners. KYC processes for most financial institutions generally include a “country appendix” for the country in which the account is opened, which often causes delay and create significant complexity when a client falls in scope of multiple country appendices.

3.2. Targeted financial sanctions screening

48. Key areas highlighted in this section include inconsistent requirements, conflicts of laws, different approaches of supervisors to sanctions compliance, challenges caused by data transparency, different national standards on beneficial ownership obligations and multiple sanctions lists across jurisdictions with weak and often incomplete data.

49. One respondent noted that today around 5% of all cross-border transactions are subject to additional sanctions-related review. Of this 5% of transactions items that cause alerts in automated screening systems, over

[5] Despite these national differences in CDD, obligations related to the information accompanying cross-border payments in the EU are fully harmonised through EU Regulation 2015/847.

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99.9% are ultimately closed as false-positives. The delay caused by manual reviews , which are required to be done prior to execution, negatively impacts customer experience, causes unnecessary delays in the payment cycle (tying-up liquidity), creates unnecessary cost for financial institutions, financial exclusion and does not significantly reduce sanctions evasion risk. These sanctions impacts are multiplied as processes are duplicated by every participant in the payment chain. In some cases (e.g. trade financing), financial institutions can identify any sanctions related alerts only from trade documents and not from SWIFT message, as these documents are more likely to have information such as planned transit ports/origin/destination of products and vessel. These documents are often paper-based and difficult to digitize and incorporate into the transaction screening system. This, in turn, requires time and effort to scrutinise every trade document to confirm that the cross-border transaction does not violate any sanctions, leading to increased costs and delays due to manual processing. Also, there is a possibility of the change in the sanction list during the usance period (three to twelve months) between the acceptance of documents and the payment at maturity. This would require the real time screening during the usance period and potentially, digitalisation of the information to be screened.

50. Participants cited conflicts of law and inconsistent requirements across jurisdictions as key factors creating challenges. While many jurisdictions also implement regional organisation-based sanctions, beyond UN sanctions, some additionally promulgate autonomous sanctions regimes based on their foreign policy or national security agendas, although these sanctions are outside the remit of the FATF standards. From a sanctions-screening perspective, this can mean that there are parties targeted by a certain jurisdiction but not others and therefore there are different screening requirements based on jurisdictions. Additionally, data available on sanction lists are usually incomplete and do not provide enough information so that financial institutions can make informed decisions, resulting in the large number of false positives.

51. According to survey participants, there are different expectations by jurisdictions for financial institutions to identify additional parties for screening based on their ownership and/or control. In some jurisdictions, there is the 50% rule, which extends freezing obligations to parties owned 50% or more by individuals and entities on the designated lists. While other jurisdictions expect financial institutions to identify and act upon parties controlled by a designated individuals and entities irrespective of ownership thresholds. For financial institutions, this means they are required to develop their own intelligence function to identify parties within the ownership and control scope for screening. According to them, this consumes time and resources in creation of vast sanctions screening lists, which may diverge from institution to institution**.** These lists can become unwieldy and ineffective as they exceed the number of parties expressly designated by applicable authorities, and there is a statistically low chance of a positive alert for designated targets or the parties they own or control. This focus on screening the lists can consume time and resources that can otherwise be used for more practical risk mitigation efforts, which respondents felt would do more to reduce sanctions evasion.

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52. Responses suggest that inconsistent implementation of complex sanctions requirements on a national level complicates institutions' abilities to implement sanctions compliance controls and can lead to over-screening in a multitude of jurisdictions. Some respondents noted that while UN sanctions are required to be implemented by all member states, each jurisdiction takes their own approach to implementation. In addition, in some jurisdictions, expectations of sanctions requirements have been misinterpreted to include certain historical UN sanctions targets related to certain jurisdictions of concern that no longer require real time screening. Some jurisdictions, have established the requirement to screen all transactions for any jurisdiction in which there are parties targeted by list-based sanctions, making the sanctions regime more expansive.

53. Financial institutions must comply with the varied regulatory obligations that govern the industry. Some jurisdictions have laws or regulations that may prohibit or restrict compliance with certain requirements of the sanctions regime of another jurisdiction. Significant operational resources are needed in order to scrutinise the potential exposure to financial sanctions. As cross-border volumes increase, so does the need for incremental resources to manage situations in which there may be conflicting legal requirements.

54. Respondents noted that in such a scenario, challenges related to transparency also manifest. Swift formats are not mandatory; certain data elements are not mandatory and not consistent across industry, causing challenges to cross-border payments. Transparency may also be impacted where the payment instruction is a "bundled payment" as there may not be full transparency in the underlying parties. Data privacy laws in some jurisdictions are more stringent than others, resulting in limited available information on sanctioned individuals and entities. This could cause difficulty in ascertaining whether a potential match arising from sanctions screening is true or not.

55. Inconsistent supervisory approaches and regulations is another factor highlighted by the respondents. Regulatory focus on this issue is not the same across jurisdictions, therefore making institutions in some jurisdictions potentially less inclined to have strict/consistent screening requirements. A related challenge reported by institutions is that beneficial ownership levels vary across jurisdictions, and so screening for sanctions against ultimate beneficial owners is challenging.

3.3. Sending and receiving customer/transaction information

56. Key concerns highlighted in this area include lack of standardisation in data formats and data elements, lack of information sharing due to data protection and privacy concerns, lack of interoperability of cross-border and domestic payments systems and different supervisory approaches for monitoring of payments service providers and agents.

57. Many respondents highlighted platform/system/messaging limitations in this context. For example, limitations in the number of characters allowed in some SWIFT fields leads to incomplete information. Participants have noted that jurisdictions are implementing clearing systems to enhance the speed of cross-border payments and to account for pre-validation

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requirements. However, as jurisdictions continue to implement individual systems, standardization of payment formatting will become increasingly difficult and the risks associated with differing message and field lengths that lead to intentional abbreviation and unintentional truncation will remain.

58. R.16 seems not to be uniformly implemented across jurisdictions, as there are no clear rules in some jurisdictions or those rules are inconsistently implemented with one another. Respondents specifically highlighted that there continues to be divergence in expectations on beneficiary information. Some jurisdictions, for example, require name, address and account number/reference number of the beneficiary in addition to that of the originator. The format of an address varies from country to country and different regulators have different expectations on what constitutes a valid address (e.g. whether P.O. Box as address proof is acceptable). Some jurisdictions require only the initials of the payee and the beneficiary, while others insist on full name. This results in incomplete or difficulty in sanctions screening by financial institutions, as they do not have full names in all cases. Moreover, banks' practice of searching of listed persons and entities by using keywords such as initials, aka ("also known as" nickname) aiming to capture wide-ranging suspicious names of persons and addresses, generates inefficiency with many false positive hits. It is also time consuming, as resources have to be deployed to continuously go back to the counterparties and request the information.

59. In addition, responses suggest that domestic consumer-oriented payment systems are not designed for inter-operability with cross-border systems. Divergent application on application of the standards, particularly where a cross-order payment moves to a domestic payment system and lack of interoperability between messaging and payments systems also create challenges.

60. Privacy laws are said to often prevent the transfer of certain customer data that the receiving jurisdiction requires. This places the payment provider in a conflict of laws situation. Some jurisdictions require agents to see all information, which then creates a risk of a breach of privacy laws. Despite the fact that the payment provider is the licensed entity, which conducts the monitoring for suspicious transaction, different supervisors require the same type of monitoring to be conducted by agents as well. The divergent approach to supervision creates frictions related to costs and speed.

61. Some respondents noted that greater clarity was needed on the role of Money Service Businesses (MSBs)/Fintech type entities/payment aggregators who initiate payments on the instruction of their underlying clients and facilitate transfer of funds. There is a difference in interpretation of the definition of a payment service provider (PSP) and whether these entities should be considered a 'PSP' for the purpose of wire transfer requirements. Because of the perceived ambiguity, different definitions of 'PSP' and licensing requirements in different jurisdictions, these entities have been seen to represent themselves as the originator (i.e. actual customer instead of the initiating 'PSP') despite effectively acting in the capacity of a PSP.

62. Inconsistent supervisory approaches across jurisdictions is also said to create challenges. The key inconsistency is lack of clear guidance on how financial institutions that provide services to other payment service

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providers, such as non-banking financial institutions (NBFI), should respond to aggregated payments, bundled at a domestic level, sent cross-border as a single transfer, and then disaggregated in a separate jurisdictions. In many cases, clarity does not exist on the underlying payment transparency and sanctions obligations for the financial institution facilitating these transfers on behalf of the NBFI.

3.4. Establishing & maintaining correspondent banking relationships

63. The key challenges highlighted in this part include de-risking, different approaches to nesting and on know your customers' customers (KYCC), inconsistencies in national treatment of money or value transfer services, quality of information shared, varying national requirements on conduct of enhanced due diligence for high risk jurisdictions and lack of supervisory clarity on bundled payments.

64. Some respondent noted that different approaches to nesting are key considerations that constitutes an obstacle in establishing and maintaining correspondent banking relationships. The FATF published a guidance on correspondent banking relationships in 2017.[6] The guidance clarified that the FATF Recommendations do not require financial institutions to conduct customer due diligence on the customers of their customer (i.e. KYCC for each individual customer). However, uneven implementation of the requirements remains a challenge. Varying local regulatory expectations still exist on the levels of KYCC due diligence that may be needed under certain circumstances. Because of stringent regulations, compliance costs have risen causing correspondent banks to stop servicing certain corridors that are considered higher risk or are not profitable. These requirements then extend to national banks that do not provide bank accounts to the money service companies that send payments to these corridors. Therefore, money service companies cannot get bank accounts or get their bank accounts closed.

65. Lack of compatibility between international and local clearing systems was also highlighted. Institutions have differing views on whether local clearing systems can be used for international transfers. Those who do use it, may find systems not being compatible i.e. information truncating when moved into the domestic clearing system. This could lead to non-compliant payments and further delays in the transfer.

66. According to the respondents, divergent national requirements might also exacerbate the impact of enhanced due diligence (EDD) for correspondent banking relationships. Since an assessment of a potential respondent's control includes an interpretation of any difference between the two frameworks, the additional complexity from divergent national requirements add costs and delays. In some cases, it also requires follow-up discussions. The cumulative burden can also result in limited access for

[6] www.fatf-gafi.org/media/fatf/documents/reports/Guidance-Correspondent-Banking-Services.pdf

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respondents, particularly in certain jurisdictions where a perception of higher risks already impose EDD burdens.

67. Differing document (physical versus electronic) and certification requirements between jurisdictions and financial institutions are identified to be another challenge by the respondents, adding time, confusion and further cost to an already cumbersome process. While the majority of financial institutions can accept an electronic format, there are some in certain jurisdictions, which still stipulate the need for physical hard copy documents. Further, certification requirements add an additional level of complexity and misalignment between which documents need to be certified, who should certify these documents and in what circumstances.

3.5. Transaction Monitoring and filing STRs

68. Key areas highlighted in this section include inconsistency and unstructured data formats and elements, divergence in parameters to monitor and report transactions, focus on more rather than better STRs, divergence in threshold of reporting STRs, generation of high volumes of false positives and a general focus on regulatory compliance rather than risk management.

69. Similar to responses in the previous areas, many respondents noted that AML controls require accurate identification and classification of the entities in a payment chain (e.g. the underlying originator and beneficiary). Variations in data standards makes it difficult for AML controls to accurately transform the data into a consistent format for analytical purposes. In correspondent banking, AML investigations typically take place on originators and beneficiaries that are account holders at other (cross-border) financial institutions. Due to multiple payment formats, payment data needs to be transformed and normalized, to be useful in automated transaction monitoring systems. Payment data can often be inconsistent and unstructured, which limits the ability to aggregate and analyse for AML detection purposes and makes it more difficult to apply rules that are based on particular data, such as originator jurisdiction.

70. Respondents noted that jurisdictions have a requirement to monitor transactions, however, in some cases, each financial institution does this differently, applying different parameters and without focus on risk. In addition, employees carrying out transaction monitoring may apply a financial institution's risk appetite slightly differently. This sometimes leads to inconsistent approvals/rejections of transactions downstream. Additionally, certain jurisdictions require foreign MSBs to report transactions beyond a threshold value, while others do not. Hence, time and money have to be spent building out these reports. Finally, certain jurisdiction require standardised purpose of payment codes, which can lead to lack of transparency regarding exactly what a payment is for.

71. Some respondents noted that filing suspicious transaction reports has become more about technical regulatory compliance rather than effective risk management. Where any doubt exists, financial institutions are motivated to file, and file as soon as possible, to avoid regulatory sanctions. Many AML/TM controls generate a high volume of 'false positive' alerts with high investigation costs. This can be caused by banks taking a defensive and risk

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adverse approach due to regulatory pressure and lack of benchmarks, guidance and tools for determining appropriate rule settings.

72. According to the participants, requirements also vary across jurisdictions ranging from a need to report on unusual to requiring filing only if there is reasonable certainty that a law has been broken. This results in a need to have differing process in each country. The differing thresholds limit the ability to use STR numbers filed as a universal indicator of risk by banks. The fact that financial institutions generally have little insight into which STRs are of use to regulators and law enforcement (due to lack of feedback) leads to an inefficient allocation of resources and potentially missed transactions of interest. A historical focus seemingly on more rather than better STRs exacerbates the challenge. It was highlighted that there are different levels of AML control in Transaction Monitoring (TM) across jurisdictions and, therefore, the network is as strong only as its weakest link.

73. Some respondents noted that the cost of maintaining effective AML controls can be a barrier for smaller banks and banks in jurisdictions where regulators have higher expectations. Lack of proper application of risk-based approach further compounds the problem.

3.6. Onboarding & maintaining agents

74. Key areas highlighted in this section include data protection and privacy concerns, lack of access to accurate and reliable beneficiary ownership information of agents, lack of effective controls by agents and lack of clarity on role of third parties doing due diligence on behalf of institutions.

75. In line with previous discussion, some respondents noted that in some jurisdictions, data protection and privacy laws often seem to conflict with the ability to collect ownership information about agents. In some jurisdictions, the lack of national registers, which can be used to verify beneficial ownership of agents, could also be an impediment to validating the information collected by the payment providers. There is a need for clearer and reasonable rules regarding conducting background checks, in particular on directors of publicly traded corporations. Some jurisdictions do not allow reliance on another government entities' controls of those types of corporations.

76. Where a third party agent is responsible to conduct due diligence on behalf of a regulated entity, responses suggest that there should be clear guidance on the specific responsibilities for the parties involved. The use of third parties is expensive and in some instances, it may not be able to provide comprehensive compliance adherence from a legislative and operational perspective.

77. Further, agents' limited exposure to AML compliance, not having similar standards in place as banks, also causes regulatory imbalance concerns about compliance standards.

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3.7. Other areas

78. Some participants highlighted data localisation as another key area of concern. Some jurisdictions require holding and processing of all data relating to financial services, including cross-border payments, locally. For multinational businesses, this imposes significant additional costs, as there is no ability to undertake AML/Compliance processes, such as customer screening, at a global level in order to share costs across jurisdiction. Instead, infrastructure costs must be duplicated locally. The higher compliance costs in these jurisdictions reduces the opportunity for cost per transaction to be lowered and to therefore be reflected in lower consumer fees.

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4. AML/CFT measures not stemming from the FATF Standards, causing challenges

4.1. Key national measures leading to challenges

79. Key issues raised in this section include rules based filing expectation, requirements to report all cross-border transactions due to exchange control considerations, excessive requirements for non-face-to-face customers, multiple documentary sources and differences in data required and the ownership threshold, restrictive requirements on innovative services and new technologies and prescriptive and inflexible obligations such as on EDD on all transactions undertaken from and to high risk third countries.

80. The survey solicited responses from the private sector on potential challenges caused by national AML/CFT measures, which are not stemming from the FATF Recommendations. Participants were invited to identify top three national AML/CFT measures, which cause challenges for cost, speed, access or transparency. Forty-seven respondents provided their contributions in this area. An analysis of the responses received indicates that the areas identified are diverse with varying degree of impact on the challenges.

81. For example, respondents have highlighted rules based filing expectations, requirements to report 100% of cross-border transactions on a daily basis (without any regard to ML/TF risk), threshold/aggregated reporting of all electronic funds transfer and requirements to obtain additional information on outgoing/incoming remittances to address exchange control or other non-AML/CFT requirements as factors underpinning the key challenges.

82. Participants noted excessive requirements for non-face-to-face customers and mandatory EDD measures for all customers and transactions in relation to designated high risk third countries (without any scope for individual risk assessment of such customers or transactions) as some of the other key areas of concern. Responses also suggest that lack of regulatory equivalence between the implementations across different jurisdictions means that financial institutions are unable to rely on compliance activities conducted by other financial institutions. This, together with lack of industry wide standards on transaction information adhered to by all banks, also creates additional complexities.

83. Some respondents noted that restrictive exchange control regulation in certain jurisdictions results in the emergence of black market for remittances. This raises the costs of remittance due to scarcity of hard currencies. This could also lead to increased ML/TF risks as customers would need to make use of unregulated markets to remit funds due to the restrictive exchange controls.

84. Some participants highlighted restrictive regulatory requirements on innovative services and new technologies and the misplaced trust on legacy transaction monitoring systems more than new RegTech and parallel use of legacy and new technological solutions leading to duplications. In addition, overflow of STR filings and lack of meaningful feedback were also highlighted as factors leading to increased costs. Overly strict approach to tipping off also causes concern in some cases as even transactions monitoring analysts are

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prohibited from access to the STR information or any indication whether STR was filed based on their analysis. This prevents feedback loop and practical training to the frontline staff.

85. Some respondents noted that the inconsistent national application of supranational requirements by member States cause significant burden on global financial institutions that need to tailor compliance procedures to each country's set of requirements. An example of this is the need for greater common standards regarding high risk third country measures. HRTC risk factors should be aligned with FATF's assessment of country risks, which would further harmonize risk management requirements across the region. Prescriptive and inflexible obligations such as on EDD on all transactions undertaken from and to HRTC regardless the client risk rating, adds to the complexity and costs. This not only generates a large amount of workload that does not mitigate risk, but also leads to financial exclusion and business disadvantage.

86. Forty six respondents highlighted all four challenges (cost, speed, access and transparency), with varying degree of impact. The following table highlights the combined effect of these measures on challenges for cross-border payments based on the feedback received. It may be noted that for the purpose of analysis, the table below presents the impact on these four challenges based in percentage terms, based on all the responses received in this section of the questionnaire. Cost remains the key concern, with 31%of responses citing it as the biggest challenge, closely followed by other challenges.

Table 5. Impact of top three national measures

Impact of top three National AML/CFT Measures not stemming from FATF Recommendations	% of respondents
Increased costs	31
Reduced Speed	25
Limiting Access	23
Reduced transparency	21

4.2. Challenges in information sharing

87. This section of the questionnaire covered challenges relating to information sharing. Participants were asked if challenges in information sharing (group wide or with other financial institutions), within or across jurisdictions, impede cross-border payments and to what extent. One hundred twenty six participants responded to this question, with 77 of them confirming it as a challenge for cross-border payments. An analysis of the responses received is set out in the tables and charts below.

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Table 6. Challenges in information sharing and nature of impact

Potential areas of friction	Count of number of institutions			
	Cost	Speed	Access	Transparency
Challenges in information sharing	40	52	39	48
	Nature of impact (No. of Institutions)			
	Most significant	Significant	Moderately Significant	Minor Significant
	25	30	18	3

88. Out of 76 respondents who ranked the challenge posed by constraints on information sharing, 72% (55/76) considered it as 'significant' or 'most significant' factor. The key factors underpinning the challenges identified include conflicts in application of banking laws and data protection and privacy laws inhibiting sharing of CDD information, including source of funds with correspondents, data localisation restrictions, manual processing of CDD information leading to reduced speed and cost escalations, inability to monitor transactions globally and inefficient sanctions screening processes.

89. Failure to share information between financial institutions for reasons of confidentiality, including for legal impediments, seems to reduce the speed of processing transactions, as it is necessary to carry out an in-depth investigation of the process, which often is not possible due to challenges in timely flow of information.

90. Many respondents noted that one of the main issues pertaining the personal data protection considerations is the legitimate ground for processing personal data for the purposes of fighting financial crime. In the context of the AML/CFT framework, obliged entities have three main legal obligations: to perform customer due diligence checks, to monitor transactions and to report suspicious activity. Sharing information with public sector authorities may not be considered by certain national data protection authorities to fall within these hypotheses. Given these considerations, there currently exists uncertainty as to the most appropriate ground for sharing information for AML/CFT purposes. This uncertainty leads to divergent approaches at the national level, which ultimately may impede cross-border exchange of information within groups.

91. Further, due to local data privacy legislation, firms often have to on-board the same customer separately in multiple jurisdictions as they cannot share relevant onboarding data within the group or with affiliates. This leads to delays and extra cost for cross border payments, and also knock on effects in terms of user access to cross-border payments in jurisdictions where data sharing is an issue.

92. Technical interoperability of legal entity data was also identified by the respondents as a major challenge in information sharing that greatly impedes cross-border payments. It was highlighted that information sharing can only be effective if the information transmitted from financial institutions clearly identifies the involved parties with standard identifiers rather than names in free form text. However, cross-border payments participants do not

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have a harmonized information sharing system or template, which all financial institutions, regardless of where they are, should use.

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5. Conclusions and suggestion from the industry to address key challenges

93. Responses received from participants seem to indicate that divergent AML/CFT requirements could be contributing significantly to challenges for cross-border payments. Key areas of these requirements relate to identifying and verifying the identity of customers and beneficial owners, receiving and sharing customer and transaction information, screening for targeted financial sanctions and establishing and maintaining correspondent banking relationships. The paper lists a number of key challenges highlighted by respondents to the survey. Based on survey responses and the subsequent discussion with industry participants, this section also provides initial suggestions received from participants on how to address some of these challenges.

94. Further consideration would need to be given to AML/CFT measures implemented at national levels, which are not stemming from the FATF standards. Responses received on the issue have highlighted a number of issues, many of which are outside the remit of AML/CFT. As noted by respondents, these include rules based filing expectation, including requirements to report all cross-border transactions for exchange control considerations, limited use of innovative services and new technologies and inconsistent national application of or over compliance with requirements.

95. Information sharing remains a key challenge, both within and across financial institutions and jurisdictions. This impacts appropriate risk monitoring, transaction processing and sanctions screening. Data localisation and inconsistent interpretation or application of data protection and privacy laws and their interaction with AML/CFT laws are key points of concern.

96. Some respondents noted that jurisdictions should look to harmonise and standardize the data points and/or fields that must be captured to enable the one-time collection of identity information from clients. Additionally, there needs to be a broader global understanding of FATF requirements, including of risk-based approach, as discrepancy exists in the level of understanding across various regions. Greater harmonisation in CDD rules and high risk Jurisdiction rules and increased collaboration among the FIUs were other suggestions received in this regard. Respondents noted that while the perception of risk might differ from country to country on a given sector, thematic work on RBA and what it entails would help jurisdictions in general.

97. National registry of KYC and beneficial ownership information and proper infrastructure to ensure maintenance/accuracy of it were also cited by a number of respondents. Respondents noted that development of a comprehensive digital population identification infrastructure could also support expansion of financial services, including international remittances to whole populations. In this regard, respondents also noted the importance of guidelines from jurisdictions for the banking sector with clear rules on how to provide access to the non-bank payment service providers.

98. As noted by a number of respondents, greater clarity and consistency in the implementation of R.16 would be helpful. This would include

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consistent expectations on the information required for originator and beneficiary across jurisdictions, including minimum standards for 'address' and its components, consistency in expectations from intermediary institutions pertaining to reaching out to the originating institution to obtain missing information in payment messages and application of these requirements on new payment companies using emerging technology. Respondents noted that the transition to ISO 20022 standards for payment messaging should help, though a standardised approach to what data are mandatory and for which parties would still be needed.

99. Respondents noted that a possible way to address the information sharing challenges stemming from data protection and privacy concerns could be to create a framework that ensures that financial institutions are able to process personal data to achieve the AML/CFT objectives in line with the applicable data privacy rules. For example, a legal basis possibly covering the AML/CFT activities and clarifying that these activities are covered by 'legitimate interests' of financial institutions and that those financial institutions can choose the most adequate mechanisms to be compliant with the Regulation. Alignment of privacy laws in all jurisdictions was cited as a key challenge.

100. Some respondent noted that lack of intra-group reliance wastes significant amounts of internal resources, and impedes financial institutions and their clients from providing access to financial services within their group effectively and efficiently. They also noted that the level of duplication caused by the lack of regulatory equivalence and the inability to rely on compliance processes performed by other institutions in a cross-border context creates a significant burden. They highlighted the importance of following a risk-based approach for implementing the FATF Recommendations in national legislation by requiring legislation to be more principles-focussed and less prescriptive where this is possible. This could help alleviate the regulatory top-up exercises by allowing financial institutions more flexibility in terms of demonstrating that they know their customers and reduce the need for collecting additional documentation from clients with little value to financial crime risk management.

101. On the challenge of sanctions screening identified previously, some respondents suggested development of best practices at a global level to ensure more consistent application of sanctions screening requirements across jurisdictions. This could include best practices on issues such as complying with list-based sanctions and comprehensive sanctions, importance of a principles-based focus, screening of aliases, whitelisting of false positive and use of emerging technologies (e.g. machine learning) to reduce false positives.

102. In this context, many respondents supported increased cooperation between regimes to standardise sanction list formats, interpretation of contents, expected response associated with listings and list distribution approaches. According to them, increasing uniformity in the list entries and greater use of structured identifiers such as Legal Entity Identifiers (LEIs), Business Identifier Codes (BICs) and digital identities and linkage of list entries between UN and country lists would simplify the screening process and improve detection performance. They also indicated that wider adoption of the

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LEI for entity client identification and identifying beneficiary and originator in payment messages would support widespread interoperability between systems and reduce costs and increase precision and transparency.

103. Participants noted that it would also be useful for the industry to get a better understanding of the purpose, use and effectiveness of the information it currently provides. Feedback from FIUs as to what information is helpful to them was highlighted as a key success factor. They supported public private partnerships and information sharing groups, including development of recommendations on the type of information that can be shared and the circumstances under which such sharing is appropriate. Respondents also highlighted that there should be an ongoing dialogue between the public and private sectors regarding the creation and implementation of financial sector requirements in order to avoid unintended consequences that may lead to less effective risk management or potential de-risking.

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Cross-Border Payments
Survey Results on Implementation of the FATF Standards

Faster, cheaper, more transparent, and more inclusive cross-border payment services, that are safe and secure can facilitate economic growth, international trade, global development and financial inclusion. Enhancing cross-border payments is a key priority of the G20. In October 2020, G20 Finance Ministers and Central Bank Governors endorsed the Roadmap for Enhancing Cross-border Payments, which comprises 19 Building Blocks. The FATF initiated an industry survey in consultation with the Basel Committee on Banking Supervision (BCBS) to identify areas where divergent AML/CFT rules or their implementation cause friction for cross-border payments. The survey results highlight, among others, that lack of risk-based approach and inconsistent implementation of the AML/CFT requirements increases cost, reduces speed, limits access and reduces transparency. Inconsistent national approaches also create obstacles in identifying and verifying customer and beneficial owners, effective screening for targeted financial sanctions, sharing of customer and transaction information where needed, and establishing and maintaining correspondent banking relationships.