

16: Correspondent Relationships

Note: This sectoral guidance is incomplete on its own. It must be read in conjunction with the main guidance set out in Part I of the Guidance.

This sectoral guidance considers specific issues over and above the more general guidance set out in Part I, Chapters 4, 5, and 7, which firms engaged in Correspondent Banking Relationships or Correspondent Trading Relationships should take into account when considering applying a risk-based approach.

Overview of the sector

16.1 Under the ML Regulations, all relationships with Credit and Financial Institutions fall within the definition of Correspondent Relationships. For the purposes of this guidance, however, a distinction is drawn between banking and trading relationships, given the different risks and method of operation. This is reflected in the way that due diligence measures should be applied. Collectively, Correspondent Banking and Correspondent Trading relationships will be referred to as “**Correspondent Relationships**”.

16.2 Correspondent Relationships covers:

- **Correspondent Banking Relationships.** A “**Correspondent Banking Relationship**” is the provision of banking-related services by one bank (the “**Correspondent**”) to another bank (the “**Respondent**”), involving the execution of payments processed by the Correspondent on behalf of the underlying customer(s) of the Respondent. This enables the Respondent to provide its own customers with cross-border products and services that it cannot provide them with itself, typically due to a lack of an international network.

Correspondent Banking Relationships can include providing a current or other liability account and related services, such as cash management, international funds transfers, cheque clearing, trade finance arrangements, foreign exchange services, and providing customers of the Respondent with direct access to accounts with the Correspondent (and vice versa). The scope of a relationship and extent of products and services supplied will vary according to the needs of the Respondent, and the Correspondent’s ability and willingness to supply them.

- **Correspondent Trading Relationships.** A “**Correspondent Trading Relationship**” is a relationship among credit institutions or financial institutions for the provision of commercial or business products or services-which may include relationships established for securities transactions or funds transfers, including services within the scope of *Sector 18 – Wholesale markets* or *Sector 17 – Syndicated Lending*, or which could simply be the provision of loan finance from one credit or financial services institutions to another. Such relationships may be described as a bilateral commercial arrangement between two institutions, rather than the provision of Correspondent Banking Relationship-related services involving the execution of payments (as defined above). These relationships do not have a traditional Correspondent and a Respondent since neither party is providing services on behalf of the other or for an underlying customer; accordingly, the degree of ML/TF risk in such relationships is different, generally lower, than it is with relationships which provide for banking-related services on behalf of that institution's customers. They are more similar to normal customer relationships.