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## 8<sup>th</sup> Meeting Readout

April 26, 2022

The 8<sup>th</sup> meeting of the Global Payments Forum was held on Tuesday, April 26, 2022 as a global virtual event. The focus for the session was **Anti-Money Laundering / Combating the Financing of Terrorism (AML/CFT)** and cross-border payments: priorities, challenges and opportunities.

The invited presenter was **Ashish Kumar**, Member of Secretariat, Financial Action Task Force (FATF) (presenter) and lead discussants were **Stuart Davis**, Executive Vice President, Financial Crimes Risk Management and Group CAMLO, Scotiabank; **Tracy Paradise**, Group head of Financial Crime Strategy and Framework, HSBC; and **Marc Chua**, Head of Compliance & MLRO (APAC) at Banking Circle. We were joined by co-chairs **Carrie Suen**, Senior Advisor and Ant Group, who has replaced Aditi Sholapurkar, and **Richard Clow**, SVP at Bank of America. **Jessica Renier**, Managing Director, Digital Finance at IIF introduced the session and **Laurence White**, Consultant Senior Advisor, IIF moderated.

**Ashish Kumar** presented on the latest survey findings and priorities at the Financial Action Task Force (FATF) relevant to payments. Within the G20 Roadmap for enhancing cross-border payments (XBPs), FATF is leading work on Building Block (BB) 5 (identifying and addressing divergent AML/CFT rules and implementations that create frictions). There are significant interdependencies among the various build blocks of the roadmap, eg between BB2 (national implementation of international guidance), BB4 (align regulatory, supervisory and oversight frameworks), BB6 (interaction between data frameworks and XPBs), BB 14 (harmonized version of ISO 20022), and 18-19 (relating to stablecoins and CBDCs).

Turning to FATF's October 2021 [survey report](#) on XPBs, this was drafted based on responses received from more than 170 industry participants (including banks, MSBs, other payment institutions and FinTech firms). In a significant majority of cases, divergent implementation of AML recommendations was highlighted as a factor contributing to frictions in relation to XPBs. The customer due diligence (CDD) process was seen as the biggest pain point, followed by sanctions screening and information sharing. Participants highlighted that among key drivers of friction for XPBs, were not only different rules and regulations but also different interpretations or implementations or inconsistent supervisory arrangements. In this regard data protection and privacy and data localization requirements were also highlighted. FATF will continue to focus on effectiveness of implementation, for example in regard to its Guidance on information sharing (2018) and Recommendations on coordination between AML and privacy regulators.

Ashish also updated the meeting on the outcomes of FATF's strategic review, which while broader in focus will have positive impacts through greater consistency. The strategic review concluded in 2022 and an amended methodology for the next round of mutual evaluations has been agreed. The next cycle will be significantly shorter than the 10 years taken by the current cycle, and could address some of the challenges highlighted in the survey results.

Transparency of beneficial ownership has been identified as a big problem. FATF amended Recommendation 24 in February 2022, with a new obligation to conduct risk assessment on

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foreign legal persons having sufficient links with the country. There is a new emphasis on a multi-prong approach to obtaining beneficial ownership information including through beneficial ownership registry, alternative mechanisms and additional supplementary measures. The FATF is currently developing a Guidance to help countries and the private sector implement the new obligations.

In response, the lead discussants and participants were asked to address themselves to two topics: **What aspects of AML/CFT regulation present the biggest challenges for faster and cheaper cross-border payments? Where are the key opportunities to improve cross-border payments through smarter or leaner AML/CFT processes?**

Key challenges identified were:

- Challenges around more open and more complex payments ecosystems:
  - regulatory challenges around the new more open rails with new players as participants; one issue cited here was that as payment chains become more complex it can be harder to see all parties who will touch a payment, thus impacting on the transparency objective or the identification of the XB nature of a particular payment;
  - new entrants can also mean more enhanced due diligence (**EDD**) and know your customer's customer (**KYCC**) obligations on financial institutions banking for them;
  - increased regulation and reporting around third party payment processors;
  - the lack of a level playing field (or “same business, same risks, same rules”) around payment transparency, and the possibility that non-bank FIs offering XBP's may not be subject to the same standards or controls;
  - as take-up increases of open banking, increased payment speeds and ease of access brings potential risk; regulators so far have not clarified which party bears the risk of transparency requirements not being met;
  - inconsistent application of rules especially around KYC; identifying payer and beneficial ownership information;
- Data and data validation challenges:
  - data validation, including of the correct information around the Travel Rule, settlement, cost, security, crypto-assets; customer information;
  - the need for clarity around liability for errors in validation and holding other financial institutions (**FIs**) accountable;
  - the existence of legacy standards and technology; costs imposed by backward compatibility e.g. in truncating field lengths and so losing resolution in XBP messages;
  - financial institutions' reluctance to share data with service providers may reduce their effectiveness and make XBP's needlessly difficult.
- Other challenges:
  - how to bring in new KYC protocols coming to market while complying with applicable regulation;

- complexities introduced by sanctions screening, with the number of countries imposing different sanctions and the number of different filters having to be applied, and also the fact that some sanctions can be used for bad ends;
- increasing digitalization and customer expectations mean that existing controls may not be effective, which can mean FIs resorting to more not less manual controls.

Key opportunities/solutions or work underway identified were:

- automation of data validation;
- opportunities for B2B service providers to use AI and machine learning to analyze FI clients' payments data to pull out trends and share the knowledge back with FIs, and with regulators;
- new types of information rails for the transfer of identification information, including new types of digital IDs including the LEI, UBO;
- payment service providers or rails which have integrated sanctions screening; or which integrate monitoring for human trafficking or other predicate offences;
- new types of automated sanctions screening tools such as APIs and blockchain-based "oracles" for screening of sanctioned wallet addresses;
- the possible creation of a sanctions screening utility to reduce duplication; and
- the Wolfsberg Group work seeking to give guidance on responsibility for transparency in payment chains

Suggestions for regulators and policymakers included:

- FATF could review Recommendation 16 (Travel Rule) in light of its survey results;
- FATF and regulators need to address conflict of laws, the most pressing issue being the conflict between AML regulation and data privacy requirements;
- FATF and regulators could do more to foster the RegTech and SupTech ecosystem, possibly through a "techsprint" type exercise similar to those held by the BIS Innovation Hub or national regulators;
- more work on common requirements around KYC / KYB.

Other key points made were:

- payments are a key choke point to ensure effective AML controls;
- FIs are struggling to cope with the rate of change in the sanctions space;
- some Paytechs are coming to market with end to end solutions for transparency, linking compliance with payment data;
- the importance of alignment, education, modernization and coordination;
- there is great interest in stablecoins and CBDC, making BBs 18 and 19 of importance.

Ashish Kumar thanked participants for the suggestions and responded on several points made, and ways in which FATF was addressing them, including the establishment of a Virtual Asset Contact Group at FATF, and healthy interaction between FATF and the BIS Innovation Hub.

He also reminded that jurisdictions need to keep in mind the risk-based approach and that the definition of FIs in the Recommendations is a functional one. The Recommendations are a baseline standard, and are not prescriptive, and the FATF global network comprising more than 200 countries has the flexibility to adjust the requirements considering risk and context. On sanctions screening, this is indeed a big pain point highlighted by the industry in various engagements, and a utility organized by banks and tech providers could be a potential solution.

Jessica Renier on behalf of the IIF closed the meeting.