BASEL COMMITTEE ON BANKING SUPERVISION

bcEng

Press release

Press enquiries: (+41 61) 280 8188
Press.service@bis.org
www.bis.org

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Guidance on customer due diligence

The Basel Committee on Banking Supervision is today issuing guidance to banks and banking supervisors on customer due diligence processes. *Customer due diligence for banks* sets out minimum standards for the development of appropriate practices in this area.

William J McDonough, Chairman of the Basel Committee, said: “Systematic customer due diligence is an essential element of banks’ risk management. It is critical to safeguarding confidence and the integrity of the banking system. The importance of a rigorous approach has been underscored by the recent terrorist attacks in the United States.”

Supervisors around the world are increasingly recognising the importance of ensuring that their banks have adequate controls and procedures in place so that they know with whom they are dealing. This is necessary not only to comply with anti-money-laundering legal requirements, but from a wider prudential perspective. Adequate due diligence on new and existing customers is a key element. Without this due diligence, banks can become subject to reputational, operational, legal and concentration risks, which can result in significant cost. To guard against these risks, banks must develop policies and procedures in key areas such as customer acceptance, customer identification, ongoing monitoring of high-risk accounts and risk management.

Colin Powell, Co-Chair of the Working Group on Cross-border Banking and Chairman of the Offshore Group of Banking Supervisors, said: “Supervisors should ensure that banks apply an acceptable minimum standard of customer due diligence policies and procedures to all areas, embracing domestic and overseas operations, and corporate and private banking business. Banks should establish systematic procedures for identitying new customers, and for ongoing monitoring of accounts and transactions.”

Charles Freeland, Deputy Secretary General of the Basel Committee and the other Co-Chair of the Working Group, added: “In recent years, a number of prominent banks have suffered severe damage to their reputation from customer due diligence failures. Many experts have been consulted in the development of this important paper and the Basel Committee, supported by the IMF, World Bank and other responsible agencies, will be taking steps to encourage its implementation worldwide.”

National supervisors are responsible for establishing supervisory practice governing banks' know-your-customer KYC programmes. The essential elements as presented in this paper, together with the recommendations for more rigorous standards of due diligence for higher-risk areas**,** provide a benchmark for supervisors to proceed with the work of designing or improving national supervisory practice.

Notes for Editors

Customer due diligence for banks was prepared by the Working Group on Cross-border Banking, a joint working group of the Basel Committee and the Offshore Group of Banking Supervisors. An earlier version was issued for consultation in January 2001, and a number of comments have been incorporated in this final paper. The Working Group intends to undertake further work on developing essential elements of customer identification requirements.

The Basel Committee on Banking Supervision is a committee of banking supervisory authorities which was established by the central bank Governors of the Group of Ten countries in 1975. It consists of senior representatives of bank supervisory authorities and central banks from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom and the United States. It usually meets at the Bank for International Settlements in Basel, where its permanent Secretariat is located.

The Offshore Group of Banking Supervisors was established in 1980 as a forum for supervisory cooperation between the banking supervisors in offshore financial centres. Five members of the Group (from Bermuda, the Cayman Islands, Guernsey, Jersey and Singapore) participate in the Working Group on Cross-border Banking.

Anti-money laundering initiatives have traditionally been the province of the Financial Action Task Force (FATF)**.** The Basel Committee's interest is from a wider prudential perspective**.** Its intention is not to duplicate the FATF's efforts, but that the standards in the Committee's paper should be consistent with the FATF 40 recommendations. Consequently the Working Group has been and will remain in close contact with the FATF as the latter develops its thinking.

The Basel Committee's previous guidance on customer due diligence and anti-money laundering efforts is contained in three papers. *The prevention of criminal use of the banking system for the purpose of money-laundering*, issued in 1988, lays down several basic principles, encouraging banks to identify customers, refuse suspicious transactions and cooperate with law enforcement agencies. The 1997 *Core Principles for Effective Banking Supervision* state that, as part of a sound internal control environment, banks should have adequate policies, practices and procedures in place that "promote high ethical and professional standards in the financial sector and prevent the bank from being used, intentionally or unintentionally, by criminal elements"**.** In addition, supervisors are encouraged to adopt the relevant recommendations of the FATF relating to customer identification and record-keeping, reporting suspicious transactions, and measures to deal with countries with insufficient or no anti-money laundering measures. The 1999 *Core Principles Methodology* further elaborates the Core Principles by listing a number of essential and additional criteria*.*

Customer due diligence for banks is available on the BIS website at www.bis.org